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JANUARY-FEBRUARY 1997
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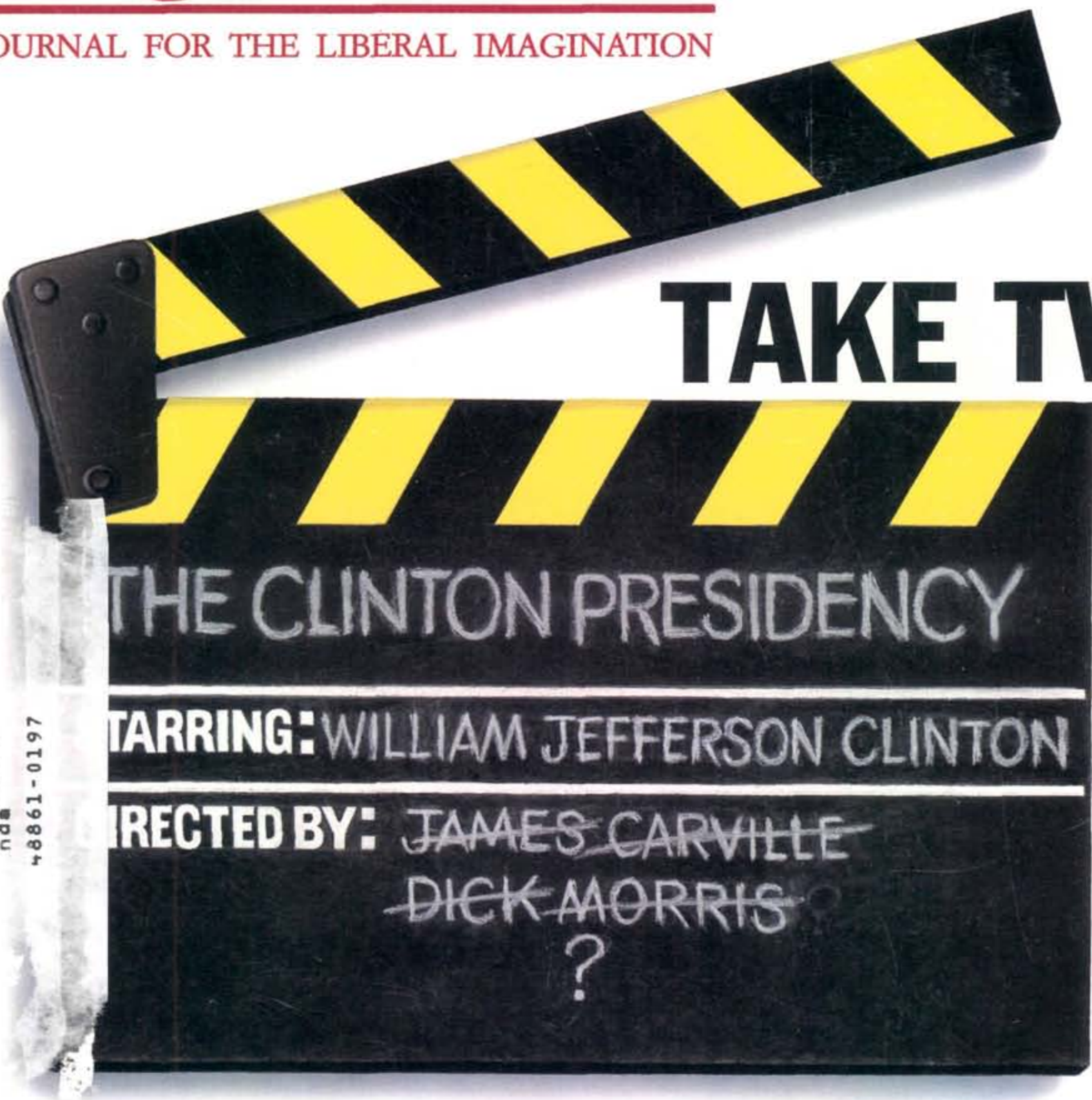
THE AMERICAN PROSPECT

A JOURNAL FOR THE LIBERAL IMAGINATION

TAKE TWO



Mary Jo Bane ■ Richard C. Leone

Harold Meyerson ■ Paul Starr

Plus Ellen S. Miller & John B. Judis on Cleaning Up Elections

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PRESENT DISCONTENTS

American Politics in the Very Late Twentieth Century

Edited by Byron E. Shafer, *Nuffield College, Oxford University*

Without the parties and what they once did for the political nation, we have returned to where we began two centuries ago. We have again empowered chaos, and given new meaning to such terms as fragmentation, factional warfare, and gridlock. An increasingly demand-driven system has been unable to respond effectively and has provided, in consequence, extraordinarily fertile ground for widespread public frustration and resentment. **Joel H. Silbey**

Americans today are engaged in a search for autonomy and empowerment, outside and beyond the big units that have become corrupt and unresponsive. We need to get used to a cultural politics revolving around personal values, a politics centered on things as important to today's Americans as the Civil War and racial/religious/ ethnic differences were to Americans in times past. **Michael Barone**

In a separated and federalized system, voters can roam freely across independently chosen bodies, putting a Democrat here, a Republican there--having it both ways through the layers of government, which are themselves interdependent. We do not really have elections in the parliamentary sense. We have political *fairs*, in which many contestants go home winners. **Charles O. Jones**

No quality is less attractive in American politics these days than obedience--not foolishness or deceit or even blatant corruption. There is no one of whom we are more scornful than the officeholder who refuses to make choices for himself. There are bumper stickers all over Washington that say, in big block capital letters, QUESTION AUTHORITY. There are none that say LISTEN TO THE BOSS. **Alan Ehrenhalt**

The simple equilibrium that existed in American politics when the parties mainly fought over New Deal social welfare issues is gone. But no new equilibrium has yet replaced it. We have been reduced to speaking of a "post-New Deal party system," which may be the inevitable result of party competition in a multidimensional issue world. **Edward G. Carmines and Geoffrey C. Layman**

The fifth force in American politics concerns the economic dilemma: the crisis of jobs, wages, and American prosperity. Is the United States poised on the cusp of an era of continued global economic success, driven by a mastery of high technology? Or is it at the end of empire, caught in a downward spiral driven by the export of semi- and unskilled jobs to low-wage countries, and by the multinationalization of world commerce? **Thomas B. Edsall**

A national politics coming to center on the fundamental issue combination that had originally made the southern Democrats deviant, namely, liberal on social welfare but conservative on cultural values, was coinciding with the *demise* of the southern Democrats as a party faction. If the rest of the nation now finds itself in the same position that southern voters once did--preferring liberals on social welfare, cautious conservatives on cultural values--then there is no real basis for such a "faction" to exist. We are all southern Democrats now. **Byron E. Shafer**

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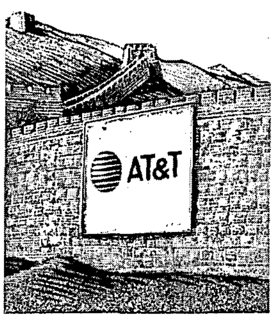
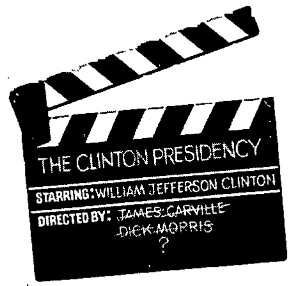
DEPARTMENTS

FEATURES




THE CLINTON PRESIDENCY
STARRING: WILLIAM JEFFERSON CLINTON
DIRECTED BY: ~~JAMES CARVILLE~~
~~DICK MORRIS~~
?

In this issue, we address the prospects for the second Clinton administration. As our several authors suggest, the running room is narrow and the prospects for major liberal initiatives slim. However, the big issues demanding reform have not gone away: money and politics, welfare and poverty, consolidation of social insurance, and dwindling political participation. These are, of course, all connected. A cynical, shrunken electorate will seldom yield progressive government, and a government that repairs to the safe center will seldom motivate electoral energy. So this is a period for grassroots rebuilding as well as hard thinking.

On another front, we are publishing three timely pieces about trade policy: Chalmers Johnson addresses our government's flawed understanding of the emergence of China as economic superpower, and Robert Dreyfuss investigates how the new China lobby—of U.S. multinational corporations—keeps policy in a self-defeating groove. William Greider, from a wider-angle lens, looks at the governability of the global economy and the narrow definition of the national interest.

A moment of appreciation is due the Twentieth Century Fund. Several of our best recent articles were adaptations of papers commissioned by the Fund. These include Alan Brinkley's "Liberty, Community, and the National Idea" (Issue 29), Kathleen Sullivan's "Constitutional Amendmentitis" (Issue 23), and Edward Wolff's "How the Pie Is Sliced" (Issue 22). Karen Paget's "The Balanced Budget Trap" (Issue 29) also benefited from her work as a consultant to the Fund's series on the impact of a balanced budget on state finances. In this issue, Richard C. Leone, president of the Fund, continues our series of articles rebutting the attack on social insurance. The Brinkley and Sullivan essays will appear in the Fund's volume, *The New Federalist Papers*. And in January, Alfred A. Knopf and the Twentieth Century Fund will publish co-editor Robert Kuttner's book, *Everything for Sale: The Virtues and Limits of Markets. The American Prospect* is grateful for this collaboration. We wish the Fund every success into the twenty-first century, when it will change its name to the Century Foundation.

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Mary Jo Bane served under President Clinton as assistant secretary for children and families in the Department of Health and Human Services.

Sam Beard is president of Economic Security 2000, a project of the nonprofit National Development Council, and author of *Restoring Hope in America: The Social Security Solution*.

Rebecca M. Blank, professor of economics at Northwestern University, is director of the Northwestern University / University of Chicago Joint Center for Poverty Research. Her article was underwritten by the Jerome Levy Economics Institute of Bard College.

Martin Carnoy, professor of education and economics at Stanford University, is the author of *Faded Dreams: The Politics and Economics of Race in America*.

Jonathan Chait, former assistant editor at *The American Prospect*, is staff writer of the *New Republic*.

Robert Dreyfuss is a freelance writer based in Alexandria, Virginia, specializing in politics and national security issues.

William Greider, national affairs editor of *Rolling Stone*, is author of *Who Will Tell the People: The Betrayal of American Democracy* and *Secrets of the Temple: How the Federal Reserve Runs the Country*.

Chalmers Johnson is president of the Japan Policy Research Institute and author of more than a dozen books about East Asia, including *Japan: Who Governs?*

John B. Judis is a senior editor of the *New Republic* and author of *Grand Illusion: Critics and Champions of the American Century*.

Richard C. Leone is president of the Twentieth Century Fund.

Theodore R. Marmor is a professor in Yale University's School of Management and political science department.

Jerry L. Mashaw is Sterling Professor of Law at Yale University and author of the forthcoming *Greed, Chaos and Governance*.

Harold Meyerson is executive editor of *L.A. Weekly* and a member of the *Dissent* editorial board.

Ellen S. Miller is the executive director of Public Campaign and was, for 12 years, the founding director of the Center for Responsive Politics.

Richard Rothstein is a research associate of the Economic Policy Institute.

Peter Schrag, editorial page editor of the *Sacramento Bee*, is working on a book about California politics over the last 30 years.

Jerome H. Skolnick is co-director at the Center for Research in Crime and Justice at the New York University School of Law. He is also chair of the Committee on Law and Justice for the National Academy of Science / National Research Council.

Cover: Bill Carroll

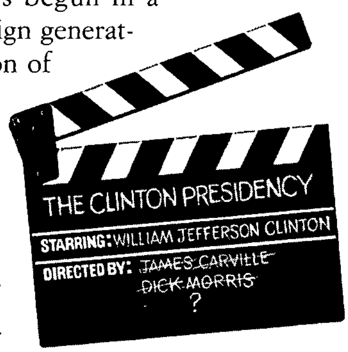
Illustrations: Bob Dahm (24, 30), **Taylor Jones** (92, 93)

PAUL STARR

The Clinton Presidency, Take Three

Bill Clinton's first term effectively lasted two years, until the disastrous midterm elections of 1994. Then came the two-year Clinton-Gingrich government of national disharmony, ending in the President's miraculous revival. Now we have the third Clinton presidency, the second Gingrich Congress, and a gathering storm of investigations that may well dominate national politics for the next two years.

Emotionally, this third phase has begun in a deceptively low key. The 1992 campaign generated high voter interest, and the election of a young president raised public expectations of reform, even of another Camelot. Although 1994 turned things upside down, emotions still ran high as Republicans talked revolution and that very talk aroused fear among a large part of the public. For liberals, the ascendancy of conservatives in Congress seemed to mean, as we said on our Spring 1995 cover, "the fight of our lives." But 1996 has been strangely flat. Political temperatures have been running below normal. Not only was the presidential race lacking in intensity; the public response to the outcome has also been indifferent. To outward appearances, nothing has changed; the incumbent parties have just been returned to their respective branches. Both the President and Republican Congress are supposed to have learned their lessons, rejected extremes, and come together in the center where they will check and balance one another and continue the kind of bipartisan cooperation that led last summer to welfare reform, the rise in the minimum wage, and the Kennedy-Kassebaum health insurance bill.



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Last summer, however, seems more likely to have been a pause in the battle than a prelude to everlasting peace. The fundamental ideological issues that divided Clinton and most Democrats from the Republicans in the last Congress remain, and they will likely emerge even more sharply in the coming conflicts over Medicare and Social Security. Liberals should be especially concerned about the likely denouement of these confrontations. Because of the historic pattern of midterm elections in favor of the party opposing the president, Republicans may be confident of emerging stronger in 1998, which could stiffen their posture beforehand. At the same time, explosive indictments and trials in Arkansas and Washington could severely weaken the hand of the President in negotiations and turn the next midterm elections into a rout. A quiet, productive, bipartisan Era of Good Feeling seems the least likely forecast for the next few years.

INDECISION '96

When the voters speak, they don't necessarily reach a conclusion: There may be no majority for a message. Our habit of reading a "mandate" into election results has nonetheless become so ingrained that even the mixed results of 1996 are widely thought to have conveyed one—this time for divided government. We like to personify the electorate, as if Americans voted with a single mind, avoiding the more obvious interpretation that the public is divided and doesn't have consistent preferences.

In their postmortems, some commentators said the voters who re-elected President Clinton also chose the Republican Congress to keep him on a short leash, even though the pollsters hardly found any such ticket-splitting "strategic voters." Nor did the electorate as a whole make the strategic choice to put the Republicans, much less Newt Gingrich, back in charge of the House. The total popular vote for the House was almost even; preliminary data showed Republicans and Democrats both receiving just over 49 percent of the vote, with the fractional remainder going to third parties. The Republicans won the House because of the way in which votes were distributed. According to political scientist Martin Wattenberg, of the close contests decided by 2 percentage points or less,

Republicans won 23 while Democrats won only 9 (as of mid-November, before the runoff elections in Texas and final count in some disputed races). However, among the lopsided races, where the winner had more than 70 percent of the vote, Democrats won 77 and Republicans 53.

Republican victories in close races may have been due to larger and more accurately targeted financial resources, the advantages of incumbency, or districting decisions that concentrated Democratic votes—or to sheer luck. Whatever the cause, with the two parties so closely matched, it seemed rather premature to announce "the age of the Republican House," as a headline in the *Washington Post* did. If voter turnout had not dropped to a mere 48 percent, or if the Democrats had not been hit with the Indonesian campaign finance scandal in the final month of the campaign, the House might have split right down the middle or gone the other way.

Nonetheless, the single most significant result of the election is that the coming to power of the Republican Congress in 1994 has been confirmed as more than a fluke. Republican gains in the South have decisively ended the old, 80-seat Democratic congressional majorities. While there hasn't yet been a complete party realignment, we have had a regional realignment that fulfills the predictions that Kevin Phillips and others made in the 1960s: Once the South went Republican in presidential elections, so it was likely to go in congressional races after a generation's lag. What's perhaps more surprising is that not only has the South turned Republican; the Republican Party has also become the vehicle of a southern restoration in Congress. Instead of southern Democratic barons, southern Republicans dominate the leadership of both the House and Senate.

And yet the 1996 election may portend another shift that partly offsets the rise of sunbelt conservatism. As the southern votes for Goldwater in 1964 and Nixon in 1968 foreshadowed future changes in Congress, so Clinton's victories across the southernmost rim—in Florida, Louisiana, Arizona, New Mexico, and California—may foreshadow a Democratic resurgence in what might be thought of as the Latinized South. The "power shift" to the sunbelt that Kirkpatrick Sale wrote about in a 1975 book by that name partly reflected

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the region's faster population growth. What the theory of sunbelt conservatism didn't anticipate, however, was yet another wave of demographic change within the region: the growing populations of Hispanics and the retired elderly, both of whom this year swung sharply toward the Democrats in reaction to Republican policies on immigration and Medicare.

In this election, Clinton's turnaround victories in Florida (the first win by a Democrat since 1976) and in Arizona (the first since 1948) didn't translate into Democratic gains in those states' congressional seats. That's the historic pattern. But the surprise triumph of Loretta Sanchez, the Democratic challenger to the right-wing Congressman Robert Dornan in Orange County, California, may be indicative of turnover to come. And, according to the *Los Angeles Times*, Sanchez managed to win even though turnout in high-Latino areas of the district was only 40 percent, compared to 60 percent in low-Latino areas. There are a lot more Hispanic votes where her margin came from.

The more immediate relevance of these changes is to presidential races. Republicans have always counted on heavy majorities in Orange County to win California; the much-touted "Republican lock" on the electoral college depended on an edge in three big states—California, Florida, and Texas—all of which may now be in play because of the southern-rim demographic trends. There's surely no Democratic electoral lock, but the Democrats could develop an electoral edge because of concentrated advantages in the largest states. Think of the Mexican border as a coast, and the Democratic base, now anchored on two coasts, may become, if you will, tri-coastal.

Interpretations of the 1996 presidential race have focused overwhelmingly on the idiosyncrasies of the candidates and Clinton's repositioning in the center. That is how many people reconcile his victory with the conservative shift in the Congress and state capitals. But just as the Republicans' control of Congress was not exactly a fluke, the re-election of a Democratic president may also have reflected deeper trends. It's as if American government had performed a novel gymnastic feat—a reverse double flip, with the legislative and executive turning over in opposite directions. If this were just dizzying, that wouldn't be so bad, but it also seems to have left a paralysis of the liberal impulses.

What Can Be Done?

Clinton starts his second term with so negligible a mandate, and so little room to maneuver, that he has much less opportunity than in 1992 to disappoint his supporters. They're not expecting much. Two decades ago, several prominent political scientists worried that rising expectations threatened the "governability" of the democracies; that doesn't seem to be our problem now. If one candidate in 1996 offered to stuff money into the voters' pockets, it was Bob Dole with his 15 percent tax cut, and his offer was turned down by a public that, according to polls, doubted he could balance the budget, too. Public cynicism does have its upside. The Democratic campaign, oddly enough, may have been more believable because it stuck to measures that were modest or, as the pundits liked to describe them when they weren't discussing Ross Perot, "small bore."

There actually were some ideas in this year's Democratic campaign that did not deserve that description. (Don't wrack your brains; I'm going to mention them.) Making two years of college universally available (through the mechanism of a tax credit) would be a historic extension of publicly financed education. Providing health insurance to the unemployed and to children wouldn't be universal coverage, but it wouldn't be small-bore either. Creating jobs for former welfare beneficiaries would be no little achievement. But Clinton's promises were hedged, and the actual money to be spent on these initiatives is modest. The pledge of a balanced budget in 2002 has ruled out programs proportionate to the problems.

Consider what we ought to be doing, not just to repair last year's welfare legislation (see Mary Jo Bane, "Welfare as We Might Know It," page 47), but also to address the larger dilemma of poverty and stagnant wages. We have properly and reasonably made it national policy that people cannot indefinitely remain dependent upon welfare and must take jobs. It is also national policy, however, to raise interest rates as soon as unemployment slips under 5 percent, and to lower trade barriers and make unskilled American workers compete directly with Third World workers earning wages that couldn't provide subsistence here. Officially, these are not problems; the poor will find jobs at living wages if only they try hard enough. But at

some point the illusions will die, let us hope before the poor and their children do. In a sense, time limits apply not only to beneficiaries, but also to government. If we won't provide public employment, we will have to increase private demand for the labor of the poor, a tricky task in this day of reengineering when companies are figuring out how to get rid of marginal workers. Yet, for the moment, eyes are closed to the bigger problems, and little will be done.

In no area is the immobilization of presidential initiative more evident than in economic policy. With the Federal Reserve under Alan Greenspan, Clinton has little, if any, influence on monetary policy. Under his commitment to a balanced budget, he cannot make aggressive use of fiscal policy; he had to surrender the idea of public investment as a source of growth at the beginning of his first term. Trade policy is immobilized by international agreements, ideology, and corporate lobbying (see Robert Dreyfuss, "The New China Lobby," page 30). No wonder that conservatives, with their radical tax plans, seem to have the bolder (if more foolish) economic ideas. And no wonder that Wall Street has been so comfortable with Clinton; he's thoroughly boxed in. But if the United States faces a recession in the next four years, what options does the President have? Pilot programs and "values" won't do.

The balanced budget amendment would extend the immobilization of economic policy far into the future. After failing by a single vote in the Senate at the opening of the last Congress, the amendment is now far more likely to pass because of the addition of two Republicans and shifts in membership within the parties. The great danger of constitutionalizing budget balance is that in the early stages of a national crisis, economic or military, Congress will be paralyzed by the requirement of a 60 percent vote in both houses to borrow funds. In a recession, as revenues fall and benefit claims rise, the federal government would have to cut expenditures, not only denying aid to those in need but also reducing aggregate demand and aggravating the downturn. Instead of "automatic stabilizers"—the programs such as food stamps and unemployment insurance that augment demand in recessions—we would have "autodepressants," an innovation that modern medicine has somehow overlooked.

Under the amendment, Congress could circumvent the requirement of a 60 percent majority by declaring a recession, but its members are likely to delay doing so for fear of the self-reinforcing effects of such a declaration. The Founders rejected any limitation on the borrowing power of the federal government because, as Hamilton said in the *Federalist*, it was impossible to anticipate the dangers the United States might face. Now, having created the strongest economy and government in the world without a constitutional barrier to borrowing, we seem about to decide that the Founders were wrong.

Barring calamities—including those self-inflicted by constitutional amendment—the most important business of the next four years will be the reform of Social Security and Medicare. If one thing were clear from the election, it might be the public support both these programs enjoy, but that will not be enough to keep them whole. Both face long-term fiscal problems that in another era would have been addressed by shaving benefits, modifying institutional arrangements, and expanding revenue without altering the foundations. As Richard Leone argues in this issue ("Why Boomers Don't Spell Bust," page 68), America has the resources to fulfill the nation's social contract with the elderly. But now the foundations will be at stake, and the contract may well be broken.

The critical issue is not so much the magnitude of future cuts in benefits as the structural changes in the programs that may be adopted in the process. Conservatives and the financial interests allied with them want to promote what Robert Reich calls "the secession of the affluent" by allowing people to opt out, wholly or in part, into private alternatives: personal savings accounts (PSAs) in Social Security, medical savings accounts (MSAs) under Medicare. In neither case does privatization improve solvency. Even the Republicans' own Congressional Budget Office projects the MSAs as a net cost, not a saving, to the Medicare trust funds. And as Theodore Marmor and Jerry Mashaw pointed out in these pages ("The Great Social Security Scare," *TAP*, November-December 1996), Social Security could invest in index funds and thus also capture higher projected returns from equity markets. What privatization will do is produce sharply different results for the affluent and the poor. It's ironic that just when disparities of income and wealth are increasing in the economy, conservatives want to change Social Security and Medicare in ways that will intensify inequality.

During the campaign, elite journalists frequently echoed the Republican view that the Democrats were "demogoguing" Medicare and cited the relatively small differences in budgetary savings between Republican and Clinton administration Medicare proposals. But the budget numbers don't correctly measure the distance between their positions. The Republican approach encourages insurers running MSAs and other private plans to cherry-pick the healthy elderly. It does not take a genius to discover enormous opportunities for profit at the expense of the trust funds if Medicare pays $5,000 per beneficiary to private plans that can avoid enrolling patients in nursing homes and appeal to the 80 percent of healthy seniors whose costs average $2,000 a year. The sicker the remaining population in the government program, the higher will be its costs, the more the program will have to cut back physician and hospital payments (under a "look-back" provision in the Republican plan), the more providers will refuse to accept Medicare—and, in the long run, the more likely Medicare as we know it will "wither on the vine," as Gingrich put it.

Today Medicare guarantees to the elderly a set of defined benefits. That is how Americans understand it; that is what they expect of it. The Republicans, however, would like the program to provide only a defined contribution for the purchase of varying insurance packages. But if costs increase faster than the contribution, the program may no longer buy the benefits that recipients are now guaranteed. This is a fundamental redistribution of risk from the government to the elderly, who have good reason to fear the consequences.

Although Medicare is likely to occupy the central focus not just of health policy but of budgetary politics, Clinton has some opportunities to work piecemeal on his original health care reform agenda. One of the ironies of the 1993 Clinton plan's defeat is that many of its provisions would have expanded choice and given patients new rights to appeal or circumvent insurers' denials of coverage. Those concerns ought to be the basis of a revived agenda that emphasizes

protecting the rights of patients in managed care, improving quality measures, and promoting insurance pools that expand consumer choice beyond what individual employers are able to provide. As the bipartisan reaction to drive-through hospital deliveries indicated, Republicans may be willing to put aside their general distaste for regulation when middle-class constituencies demand limitations of managed care. As a result, even with divided government, there may be some opportunities for progress on this front.

Similarly, while this Congress is unlikely to initiate any expansion of publicly financed health coverage, Clinton's proposal for the health insurance for the unemployed may pick up support. Both parties have hailed the Kassebaum-Kennedy bill as guaranteeing Americans the right to keep their health insurance when they change or lose their jobs. What they haven't stressed is that the legislation does nothing to help the jobless pay for coverage. After the bill goes into effect and especially if a recession hits—that is, if the government has the capacity to do anything in a recession—there may be pressure to respond to the bill's most obvious limitation.

No doubt other targets of political opportunity will emerge over the next four years. They are far more likely to develop, however, if the President uses his bully pulpit to create them. Clinton has been extraordinarily adept at taking the dominant conservative framing of the issues, ceding on points he felt he could not win, and then using the conservative frame—family values, responsibility, a balanced budget—to defend his policies and criticize his opponents'. But unless he and his party reframe the debate, particularly about economic policy and entitlements, they will be in deep trouble on the truly decisive choices of the next four years.

The Democratic Tension

The choice between contesting conservatism and turning it to (moderately) progressive purposes is exemplified by the internal conflicts within the Democratic Party. Although Clinton's campaign this year wasn't built around any major initiatives, it synthesized the themes and policies advanced by the party's contending factions. On the one hand, the President evoked concerns for values of opportunity and responsibility that New Democrats emphasize; on the other, he made the protection of Medicare, Medicaid, education, and the environment into a campaign mantra.

But within days of the election, two groups representative of the tensions among Democrats issued reports from pollsters with contrary stories about which themes won the race. On behalf of the Democratic Leadership Council, Mark Penn, who advised Clinton in 1996, said his polls confirmed that the President won because he had returned to his original stance as a New Democrat. On behalf of the populist Campaign for a New America, Stanley Greenberg, who had advised Clinton in 1992, said his poll showed that most Clinton voters responded to such traditional Democratic concerns as Medicare and education.

They may both be right. The overwhelming majority of Democratic voters, as Greenberg contends, respond to the traditional themes, but that doesn't answer the question of what's necessary to win elections. The core Democratic constituents may amount to perhaps 35 or 40 percent of the electorate, enough to go down to thunderous defeat; the additional voters attracted by New Democratic themes may well provide the margin of victory. The left would like Democrats to try to win elections by expanding the electorate, but no one has figured out how to get low-income and minority voters to the polls in the numbers that this strategy requires.

Thus, however uncomfortable they may be together, the two factions need each other. If one side pulls out—for example, into a third party—they will both go down to defeat. Some New Democrats may abhor the labor unions and "liberal fundamentalists"—no matter, they can't win elections without them. The Republicans have analogous and, if anything, less comfortable alliances between cultural conservatives and libertarians. On each side, writers in magazines and experts in think tanks can attack one other with abandon, but political leaders who need to assemble majorities at the polls and dedicated workers at the grass roots can't afford to be so cavalier. It's not that they can't grasp contradictions, as one friend likes to say of Clinton; they have an institutional need of ambiguity. Still, when vital principles are at stake as they will be in the fights over the balanced budget amendment, Social Security, and Medicare, political clarity should not be too high an expectation.❑

JOHN B. JUDIS

Goo-Goos Versus Populists

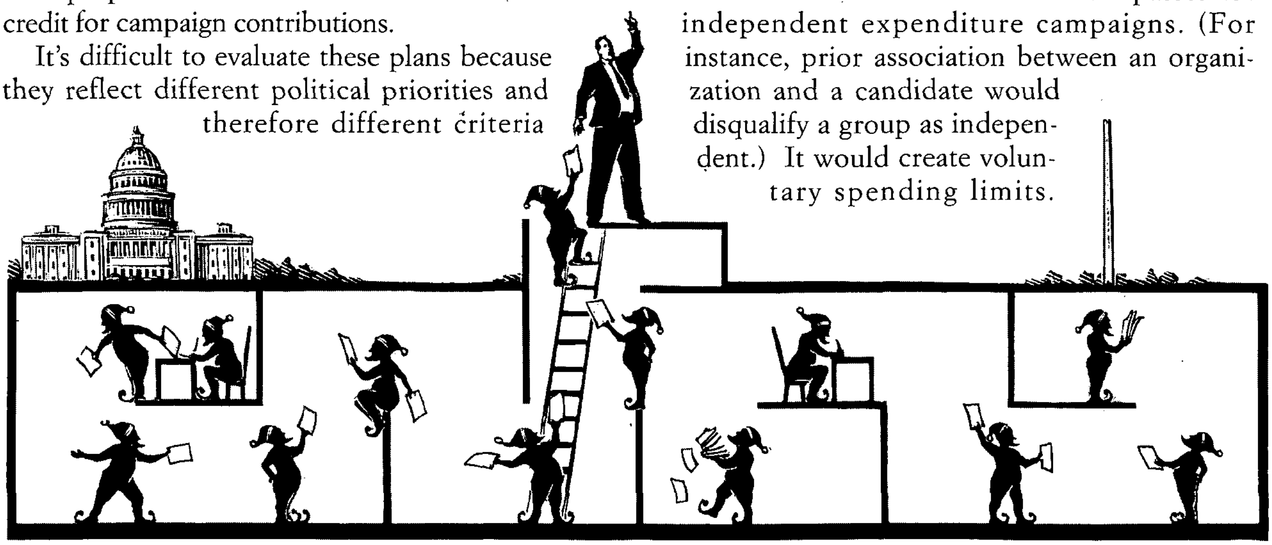
WASHINGTON, D.C.

Since the election, almost every group in town has been meeting to develop a position on campaign finance reform. The Brookings Institution's Tom Mann has organized a working group that holds luncheons and has its own web page (www.brookings.edu/gs/campaign/home.htm). Organizations from Common Cause to Citizen Action are holding meetings of what they call the "reform community." Norman Ornstein, a fellow at the American Enterprise Institute, summed up much of the prevailing mood at a Brookings luncheon November 13. "I used to think of the problem of campaign finance as a low-grade fever," he said. "But in this election, the system suffered from a massive heart attack."

To date, the groups are advancing two different kinds of plans. Common Cause favors the McCain-Feingold bill, which was introduced last year by the Republican senator from Arizona and the Democratic senator from Wisconsin. The Center for Responsive Politics and other public interest groups are emphasizing voluntary public funding [see Ellen Miller's "Clean Elections, How To," page 56]. In addition, Ornstein, Mann, and other members of the Brookings group have offered a variety of piecemeal proposals—from free television to a $100 tax credit for campaign contributions.

It's difficult to evaluate these plans because they reflect different political priorities and therefore different criteria for success. Common Cause is a classic good government organization. It wants to eliminate "interested money" in campaigns, whether it comes from business or labor. (One of the first acts of Ann McBride, the new president of Common Cause, was to pull a forthcoming article about the AFL-CIO and politics from its magazine because, the author was informed, she thought it too prolabor.) The good government reformers want individual citizens to determine elections based on what Ornstein calls "dialogue, debate, and deliberation." The Center for Responsive Politics, Ralph Nader's Public Citizen, and Citizen Action are more populist. They worry that under the current system, business PACs and the wealthy donors exercise preponderant influence over workers and their organizations. They want to recast the rules to favor the latter.

In Washington, the goo-goos get the most attention. The best-known initiative is McCain-Feingold, which Clinton endorsed in the last week of the election. Its premise is that local individuals, not organizations, should contribute to candidates. It abolishes PACs and would also outlaw some of what now passes for independent expenditure campaigns. (For instance, prior association between an organization and a candidate would disqualify a group as independent.) It would create voluntary spending limits.



Candidates for Congress would be offered half-price advertising on television in exchange for their willingness to limit how much they spend ($550,000 for House campaigns and varying amounts for the Senate) and from whom they raise it (they would have to raise 60 percent of their funds from individuals in their own state).

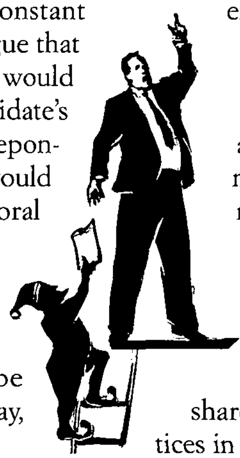
The bill has its merits. Given that most of the political money comes from business and the wealthy, spending limits generally alter the tilt of the political system for the better. But not by that much. McCain-Feingold might eliminate business and labor PACs, but it would not eliminate the preponderance of wealthy donors. Most business money is currently raised through individual contributions rather than PACs. And the local requirement could be easily finessed. Eliminating the role of organizations in campaigns would be a mistake—it's really the only way for individuals who are not billionaires to exert power—but even if you accept this good government objective, McCain-Feingold would not accomplish it. The Supreme Court would be extremely unlikely to allow a ban on PACs and would definitely not agree to onerous restrictions on independent campaign expenditures. (In *Colorado Republicans v. FEC* this June, the court went beyond the earlier *Buckley v. Valeo* decisions and ruled that even political parties could not be prevented from making unlimited independent campaign expenditures.) If independent organizations continued to exist, the bill would have the paradoxical effect of making candidates, who would be restricted in their expenditures, pawns of those organizations that could run unlimited campaigns on their behalf. Far from eliminating the influence of elite interest groups, McCain-Feingold might well strengthen them.

While Common Cause doggedly defends McCain-Feingold, other good government types have abandoned it—not only because of its internal defects, but because it has no support among the Republican leadership in Congress. "The premise of our discussion," Tom Mann told the November 13 Brookings luncheon, "is that McCain-Feingold probably won't be enacted, and if it were, it wouldn't do any good." At that lunch, Mann, Ornstein, and former *Washington Post* reporter Paul Taylor offered a set of mini-reforms that they thought could garner bipartisan support. But most of these had even less to recommend them than McCain-Feingold. Mann and Ornstein back legislation that would eliminate the loophole that allowed the AFL-CIO to run a $35 million "educational" campaign this election. They want any advertisements that mention a candidate by name to be classified as independent campaign expenditures. That means the unions couldn't use dues money and would have to disclose and limit their contributors. Mann and Ornstein insist they are not picking on the AFL-CIO—in the future, business will take even greater advantage of this loophole. But its immediate effect would be to stigmatize labor unions and to exaggerate the current tilt of the electoral system.

Ornstein also wants to offer campaign contributors a $100 tax credit. He believes this will elevate the role of individuals over interest groups in the political process. "It will encourage contributions that no one can argue are 'interested money,'" he said. But it will merely encourage an illusion of individual power and participation among individuals. It's not contributions from lonely individuals, but those from individuals associated with businesses and organizations, that drive campaigns and influence candidates. Taylor wants the networks to grant free television time to candidates on the condition that the candidates speak directly into the camera. Like other goo-goos, Taylor thinks negative advertising is the bane of today's politics. But there is nothing inherently less truthful or more misleading about an attack ad than about a candidate's prepared statement into a television camera. Contrast the canned statements in debates with Steve Forbes's devastating and accurate ads in the New Hampshire primary against Bob Dole and Phil Gramm's tax records. Taylor's proposal—and the calls for "civility" in politics—simply reflect an upper-class disdain for the way popular politics have evolved in this country. Like the dislike for "entrenched incumbents" (another good government bugaboo), it's a legacy of the reformers' Mugwump past.

Almost the entire reform community backs public funding, but Citizen Action and the Center for Responsive Politics have made it the center of their strategy. Some proponents of public funding, like Josh Rosenkranz, the director of the Brennan Center, would like to overturn *Buckley v. Valeo*, which bars mandatory limits on candidate expenditures, but most of the public interest groups have decided to accept the Court's ruling and work around it. The public interest groups favor a voluntary public system that would function like the current system for funding presidential elections. In the last election, Maine passed an initiative that would institute such a voluntary system for state office campaigns.

Part of the rationale for public funding is good government. It would eliminate the role of organized money in directly funding campaigns. And unlike the current system or McCain-Feingold, it would give politicians a reprieve from constant fundraising. The public interest groups argue that it would also meet populist objectives. It would eliminate all private contributors to a candidate's election campaign. Given the current preponderance of business and the wealthy, that would change the balance of power in the electoral system. It might not foster candidates more likely to listen to the AFL-CIO or Citizen Action, but it would certainly make it possible for candidates, particularly in lower-budget House races, to be more independent of Philip Morris, Amway, and Golden Rule Insurance.



Public financing is not, however, a panacea. It's better than the current system, but like McCain-Feingold, it may simply displace the locus of political struggle from candidates to interest groups. Even if the country were to adopt, and the FEC were to enforce, a provision granting candidates matching funds against independent expenditure campaigns, many political races would become like the referenda battles in California, where groups on either side spend millions. That will be particularly true of Senate races where money and the sheer quantity of advertising can be decisive. The crucial battle in Iowa would not have been between Tom Harkin and Jim Lightfoot, but between the major ad campaigns run on their behalf. (Indeed, in this election, some congressional races, like J.D. Hayworth versus Steve Owens in Arizona, devolved by the last month into battles between contending independent organizations.) And it's not a solution to ban independent expenditures: The Supreme Court would not agree, and they would be right not to. It runs directly counter to the First Amendment.

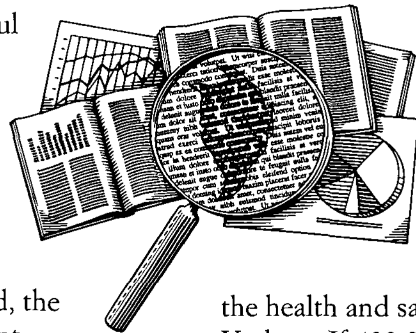
Much of the worry about campaign finance goes back to the original promise of democracy: that the equality of universal suffrage would counter the organized inequality of the economic system. It was, unfortunately, a false promise. The inequality of the economic system reasserted itself in politics in myriad ways. To stand up for themselves, average citizens could not simply vote, but also had to organize in labor unions, civil rights organizations, environmental groups, civic organizations, and other associations, and they had to work through the political parties. Many of the good government reformers and some of the populists are still trying to make good on the original promise of democracy. Through legislation, they want to create an oasis of political equality within a desert of economic inequality. But for the most part, it won't work. The goal of political reform cannot be to eliminate all organized interests, but to create a genuine democratic pluralism, where the organized interests of workers and citizens can contend equally with those of business and the wealthy.

Most of Washington's reform community shared Ornstein's horror at the campaign practices in the last election. And there were atrocities—from the Republican reliance on K Street lobbyists and campaign contributors to write their legislation to the Clinton administration's use of our foreign policy as bait for Indonesian and Taiwanese campaign contributions. But overall, the campaign was not that bad. Because of the unprecedented effort of the AFL-CIO's campaign, alongside that of environmental and other organizations, the electoral arena actually showed signs of a renascent democratic pluralism. The AFL-CIO may have bent the campaign laws (as did the Christian Coalition and U.S. Chamber of Commerce), but it also made the system more democratic. Campaign reform is important, and worth pursuing, but in the end the goal must not be to eliminate interest groups and "interested money," but to create a more equitable balance of interests in the society.❑

Devolution in the Details

Bob Dole isn't the only prominent politician keeping a copy of the Tenth Amendment in his pocket. Mayor Rudolph Giuliani is also a card-carrying member of the devolution fan club—only Giuliani is using the devolution argument to beat states' rights advocates at their own game.

Giuliani filed suit in a New York federal court to overturn a provision in the welfare law proposed by his fellow Republicans and signed by President Clinton. In the suit, Giuliani argues that by allowing city employees to report illegal or undocumented aliens who seek basic city services, the welfare law violates the Tenth Amendment by overriding a 1985 New York City executive order prohibiting those same city employees from reporting illegals to the Immigration and Naturalization Service.



What wonderful irony. When President Clinton signed the legislation, devolution advocates claimed a major victory. At last, they reasoned, the federal government was getting out of the social welfare business and returning power to the states. Of course, most Tenth Amendment fans expected states to wield this newfound power in profoundly regressive ways. Without the federal government looking out for the interests of the poor or immigrant populations anymore, state and local governments would be free to deny these groups services—something the predominantly conservative devolution crowd had been aching to do for a long time.

But Giuliani has seized on the Tenth Amendment to advance his own progressive agenda on immigration. Ever since then Mayor Ed Koch issued executive order 124, the estimated 400,000 New Yorkers who are not legally supposed to be in the United States (only 3,000 of whom are deported each year) have been able to report crimes to the police, receive hospital care, and send their children to public schools. Executive order 124—which was subsequently renewed by both Mayors David Dinkins and Giuliani—is an example of the mayor's "police power" to provide for the health and safety of New Yorkers. If 400,000 New Yorkers were not reporting crimes, were carrying untreated contagious diseases because they could not check into a hospital, and were keeping their children out of school, the entire city of New York would suffer.

Giuliani, a second-generation American, strongly believes in an open-door immigration policy and worries about anti-immigrant sentiment. Rather than stand idly by and bemoan the passing of an era—an era in which America welcomed those eager to make a better life for themselves in this land—Giuliani has decided to beat these regressive, anti-immigration forces at their own game.

The beauty of devolution is in the eyes of the beholder.

—*Jason Gray Zengerle*

Spot any Devils in the Details?

Let us know about it.

Send e-mail to prospect@epn.org or write us at

Devil in the Details
The American Prospect
P.O. Box 383080
Cambridge, MA 02238

SAM BEARD DEBATES THEODORE R. MARMOR & JERRY L. MASHAW

Is There a Social Security Crisis?

Does Social Security face financial crisis? In "The Great Social Security Scare" Jerry L. Mashaw and Theodore R. Marmor argue that, contrary to the conventional wisdom propagated by major media sources such as *Newsweek* and the *Atlantic Monthly*, Social Security is not in danger of insolvency. It requires, Marmor and Mashaw say, "prudent adjustment, but not major revision." They claim that the notion of a crisis has been in large part manufactured by greedy mutual fund managers and rabid free market advocates using fear tactics to generate support for privatization of the system.

A reply to "The Great Social Security Scare," November-December 1996.

I agree with Marmor and Mashaw that for years, "privatizers" have fought to demolish the Roosevelt contract of a decent retirement income for all Americans. Take government out of the retirement business, the privatizers say, and allow individual responsibility to reign supreme. Translated, this means: If the stock market declines, 20 million seniors are thrown into poverty. This is not an option—it's disgraceful. The American people will not accept this high-risk prescription. A safety net for all Americans is essential.

But Marmor and Mashaw contend that advocates of individually funded accounts for Social Security are motivated by political and ideological issues, not by concerns about the insolvency of the system. Marmor and Mashaw are wrong on at least two counts. First, there really is a Social Security crisis; the system is in danger of insolvency. Second, personal security accounts (PSAs), reviled by Marmor and Mashaw, can help solve the problem if they are added as a second tier to the current pay-as-you-go system. I'll address the first point of disagreement first—the question of whether or not there is a Social Security solvency crisis.

In arguing for "prudent adjustment" over "major revision," Marmor and Mashaw rely in part on the work of former Social Security Commissioner Robert M. Ball [see Ball's "A Secure System," *TAP*, November-December 1996]. "Three simple changes," asserts Ball, "would reduce the projected Social Security 75-year deficit from 2.17 percent of payroll to about 0.80 percent. These changes would reduce benefits only an average of 3 percent . . . and no Social Security tax increase would be required for 50 years."

Ball sold the country on this prescription in the mid-1970s and again in the mid-1980s. Now he's trying again. In the mid-1970s, Social Security was "in crisis." Ball concocted a solution: Raise taxes some, cut benefits some, and declare that Social Security is safe for 75 years. This prescription was off by 44 years and more than $5 trillion. A few years later, on November 21, 1980, an Associated Press article reported: "Ball today scoffed at reports the pension system is heading for bankruptcy and said there is no need to cut benefits or delay the retirement age." By 1983, taxes were raised, and the retirement age went up. Social Security was "saved" for 75 years. But the numbers were wrong again—by 53 years and more than $7 trillion. Under Ball's guidance, between 1966 and 1996, Social Security taxes have doubled—from 6 percent to 12.4 percent of payroll. That's a $180 billion annual tax hike.

Now we face the arrival of the baby boomers, and Ball (and Marmor and Mashaw) say that all we need are minor adjustments. Let's look at the facts. As the boomers age, the number of beneficiaries doubles—from more than 40 million to over 80 million. With real wage indexing, benefits double again. That's a $400 billion per year increase in Social Security obligations. An

extra $400 billion cannot be managed without raising taxes. In fact, the Social Security trustees report a $7.5 trillion unfunded liability and the need either to increase taxes 50 percent—from 12.4 to 18 percent of payroll—or to cut Social Security benefits by 40 percent in order to remain solvent.

Social Security deficits will begin in 2012. By 2022, annual Social Security deficits will be $100 billion per year, skyrocketing to more than $200 billion per year by 2032. The argument that there is no solvency crisis rests on there being $3 trillion in the Social Security Trust Fund. But there is no such $3 trillion. We can't pay the $3 trillion in deficits with money that does not exist.

So where will the $3 trillion come from? The House Ways and Means Committee offers three bleak choices. The first option is to cut government spending by $3 trillion. The second is to tax every family in America $42,857. And the third option is to swap a paper IOU (what the government owes the government) for actual government bonds. This means, in other words, taking $3 trillion out of investment and job creation in the productive private-sector economy and increasing the national debt by 36 percent. And then, in 2029, taxes will have to be raised 50 percent.

The question is not whether to keep Social Security or not. The question is how to finance it. The old pay-as-you-go system worked extremely well for 61 years. But now demographics are changing, and the old way of financing the system is broken. The young are taxed to pay the benefits for the old—as the old are doubling in number and living longer. Soon there will be fewer than two workers to pay the benefits of one retiree. The tax burden on the young is unsupportable.

The solution, at its basic level, is quite simple. Put the power of compound interest to work. This means beginning investing when we are young, setting money aside, and letting it grow during our working lifetimes. All members of President Clinton's Social Security advisory panel agree that this should be done.

Consider the following two options: Option one is to spend $3 trillion pretending the baby boomers aren't retiring. Spending $3 trillion on the current, flawed system buys 16 years of solvency. By the seventeenth year, the system will be running annual deficits of $200 billion. Option two is to take the same $3 trillion and invest $100 billion per year for 30 years into individual, funded savings accounts. That's almost $1,500 per family. After 30 years, the accumulation would be $100,000 per family. If we apply these two options to real-life examples, a minimum-wage worker and a single mother with two children, the positive effect of savings accounts becomes very evident. A $10,000-a-year, minimum-wage worker pays $1,240 a year to Social Security. A 50 percent tax hike would cost him an additional $620 per year. But if this money were invested over one working lifetime, it would generate a nest egg of $182,769 (in 1996 dollars) for retirement. A single mother with two children earning $30,000 a year pays $3,720 annually to Social Security. Raise her taxes 50 percent, and she pays an additional $1,860 each year. But in a funded system, she retires with $548,307. Living off the income from the principal, her benefits increase 20 percent, and she retains the $500,000 for her children.

Most debates about the future of Social Security today get so bogged down in minor technical disputes about percentage point adjustments here or there that they lose sight of what the program is supposed to be all about: protecting the middle class and providing everyone—rich and poor alike—with opportunity and an ownership stake in our economic system. Today, all but the top 20 percent of income earners in the United States are running on a treadmill. Wages for most workers have been stagnant or declining since the 1970s. After taxes and living expenses, 60 percent of American families have average savings of less than $1,259. If we take advantage of the political moment to create a stakeholder economy for everyone, we can convert the crisis in Social Security into an opportunity. Liberals need only to act with the boldness they displayed when they implemented the GI Bill, which opened educational opportunities, or the Federal Home Administration, which opened home ownership to 61 million Americans.

We don't need to abandon Social Security's safety net or its progressivity. We simply need to adjust today's pay-as-you-go system by adding a second tier. Tier one remains everyone's essential safety net. Tier two will be individual savings accounts. Under a progressive tier one, redistributed benefits would flow to low-income Americans. For reasons of fairness, establish a minimum set-aside into the funded accounts of $1,000 per year. One thousand

dollars per person per year would be enough to free the Social Security system from tax dependence on young Americans. Every year this would allow low-income individuals to set aside and save $1,000—more than many would otherwise likely be able to accumulate in a whole lifetime. Workers will be able to retire on income from their own accumulated capital, and pass the principal tax free to their heirs, lifting the burden of paying for retirement from the young.

Adding individual accounts and savings to Social Security could be one of the greatest fiscal achievements for the new millennium. When people like Marmor and Mashaw defend the old pay-as-you-go system they are doing a disservice to people in need; besides, their math doesn't work.

—*Sam Beard*

Sam Beard has produced not so much a letter of response as a litany of the claims about Social Security he regularly disseminates in speeches and op-eds. The litany is such a mix of earnestness, foolishness, and odd reasoning that one has difficulty knowing where to begin. Below we respond to six of the assertions that Beard makes about allegedly worrisome features of Social Security's structure and future. But, before that, we should note an area in which we find common ground with Beard.

He, like us, criticizes those "privatizers" who "have fought to demolish the Roosevelt contract of a decent retirement income for all Americans." More specifically, he shares with us a concern that taking government out of the "retirement business" and allowing "individual responsibility to reign supreme" would put too many retirees at risk of financial insecurity—a "disgraceful" option, Beard writes. In short, we might have thought Beard agreed with our article's central claim that Social Security finance "requires prudent adjustment, but not major revision" and, further, that the argument that the current system cannot be financed is, bluntly, "nonsense." Alas, we were wrong. Beard is an instance of hand-wringing, not an analyst of it. Beard is not only alarmist in tone, but foolishly naive about the prospects of preserving Social Security's redistributive role (his first tier) while celebrating the expansion of individual stock market accounts as the "solution" to all manner of American difficulties. This is what one might call the wishful thinking of the left wing of the world of finance capital.

Each of Beard's key claims falls apart on careful examination:

1. The unfunded liability threat: There is no need to cover unfunded liabilities in a pay-as-you-go program. Claiming huge current shortfalls on debts not yet due are quite irrelevant—and quoting figures of $7.5 trillion is fear mongering rather than clarification. Note that if all our mortgages were called tomorrow Americans could not pay up. But, of course, these debts won't be called if we make our monthly payments. Does Beard want us to stay up nights worrying about our "unfunded" mortgage?

2. Bob Ball was wrong about past Social Security fixes. We agree that Robert Ball and his colleagues were wrong in 1983. They failed to fix the system for 75 years—only for 47. If Ball's proposal is good for another 47, we will be quite happy. (If most of Beard's 1949 predictions about 1996 have been accurate, we congratulate him, too.) The notion that long-range projections can be put on autopilot forever is absurd. And the repetition of such a silly standard does not enhance the quality of American public discourse.

3. Treasury promises are "paper IOUs" and, therefore . . . worthless? If Treasury securities in the Social Security trust funds are worthless, so are all other Treasury instruments. In short, if Beard is right the American economy has already melted down. Buy gold.

4. The wonders of private stock market accounts argument. Shifting the *form* of funded private savings does not shift the *amount* of national savings no matter how many times Beard or others repeat the canard that privatization equals economic growth. Prudent Americans should save more. If they do, the economy *may* well grow faster. But translating 5 percent of FICA taxes into 5 percent IRA contributions ensures neither of those results. It will only ensure that mutual fund managers will earn an estimated $150 billion more in 2010 than they otherwise might have earned, according to David Langer, a consulting actuary specializing in employee benefit plans. But money managers will not have done it the "old-fashioned way," by attracting customers. The government will have forced the customers into their hands. That's the one secure prediction that can be made about the "stockholder economy" of "personal security accounts."

5. Stock market investments are crucial; the alternative is awful. Neither we nor Bob Ball are arguing that some equity investment of Social Security funds is itself a bad idea. We are arguing that such an investment should be through government accounts. That is the only way that all Americans can be ensured a reasonably adequate and secure Social Security pension. If individual investors are exposed to the thrills and spills of the stock market via individual accounts, Social Security ceases to be social insurance. Beard's rosy scenario for the median investor will not come true for 50 percent of those who hold PSAs. This is not Lake Wobegon. Nor is it convincing that the stock market will appreciate at projected rates while the economy grows at just 2 percent.

6. Advocacy statistics as the road to muddled thought. Beard's letter is strewn with misleading numbers, aimed at persuading any right-thinking progressive to embrace radical adjustments in Social Security's pension program. Here we take up but two instances of numbers used to numb rather than prompt thought.

Beard concludes his letter with the claim that "the math doesn't work" for the continuation of a pay-as-you-go system. But let's examine how his math works to produce a "minimum-wage worker" who on $10,000 a year, invests his $1,240 of Social Security taxes over a working lifetime and generates a "nest egg of $182,769 [in] today's money."

Beard's calculation is simply the arithmetic of what a stream of investments would yield at a given rate of return over some specified number of years. But the language of nest eggs does nothing to change the fiscal facts. If Beard's suggestion of individual accounts were enacted, either regular Social Security benefits would have to be reduced sharply or others would have to pay increased taxes to compensate for the diversion of what had been contributions to Social Security. You cannot spend the same money twice.

The Social Security Advisory Council, by the way, "did the math" on a transition to a fully funded retirement system. It would require an extra 52 percent payroll tax, imposed over 72 years, beginning in 1998, *plus* about one trillion dollars in borrowing over the next 40 years. That is the new revenue needed. There is literally no way around a large tax increase to pay for the transition (even when one reduces benefits, as one of the council's options does, by a 47 percent cut in what an average earner would get today).

A second illustration has to do with Beard's fearful commentary on "the arrival of baby boomers." Beard correctly notes that "The number of beneficiaries doubles—from more than 40 million to over 80 million." And he adds that, "with real wage indexing, benefits double again," a $400 billion per year increase in obligations that "cannot be managed without raising taxes."

But while the number of beneficiaries is expected to double, the number of workers paying taxes increases as well. It is true that the ratio of workers to beneficiaries is expected to decline from 3.2 in 1996 to 2.4 in 2020 to 2.0 in 2045. But this is not a flaw in the program. Comparing past ratios in a maturing social insurance system to a mature system is misleading. The relevant fact is that even if the financing gap were closed solely by payroll tax increases, real wage growth is projected to outpace the tax increase. Workers would still have higher net wages in the future than today even if they pay higher FICA taxes. The average wage today is $25,638, with a net wage after OASDI taxes of $24,048. In 2030, the average wage is projected to be $34,913 in 1996 dollars; the net income after the pay-as-you-go FICA tax for that year is $32,054. The worker is still ahead, even after paying an increased FICA tax (8.19 percent for employers and employees, each). This example, please note, is pessimistic, since it assumes no reduction in the benefits provided under current law and it further assumes the entire fiscal imbalance would be resolved only through payroll tax increases. But even this remedy is hardly "unsustainable."

Sam Beard's plan is well intentioned, but it would require massive tax increases and additional borrowing to serve the goals of simultaneously financing the Social Security pensions owed to present and near-future retirees, while building up "nest eggs" for the retirees of the next century. He has not convincingly demonstrated that this is the best use of tax increases and added debt. It is improbable in the extreme that his plan would be enacted in the redistributive form he has proposed. What is unfortunate, even shameful, is that he adds to the hysteria over the viability of the present system in an effort to promote a plan that is at best utopian and at worst a cat's paw for groups who do not share his idealistic goals.

—Theodore R. Marmor and Jerry L. Mashaw

A POSTFEMINIST'S RESPONSE

To the Editors:

Regarding "Will Class Trump Gender?" [*TAP,* November-December 1996], did the dog eat Wendy Kaminer's homework? Or, as seems more likely, did she dine on lemons while practicing her penmanship in one of Radcliffe's hermetically sealed rooms? Clearly, Kaminer does not know the Independent Women's Forum (IWF), whose board I chair.

Danielle Crittenden is not a "columnist" for *Women's Quarterly*, IWF's flagship publication. She is its editor, a fact readily ascertainable from the masthead, with which Kaminer is apparently unacquainted. She is also apparently unacquainted with the notice that appears in every IWF publication, to the effect that views of those published are the authors', and not necessarily those of IWF.

Further, occasional complaints of excess aside, antifeminism doesn't occupy the attention of IWF. Antifeminism is a waste of time for IWF and other postfeminist organizations (and Kaminer observes correctly, if confusedly, that IWF is postfeminist). Such organizations are concerned with building upon the base of equality between the sexes that is both natural and achieved, as opposed to focusing on (in this case) outmoded Marxian analyses whose false premises have been amply demonstrated everywhere except, one suspects, in hermetically sealed rooms.

It may have escaped Kaminer's attention that America's women have been voting since 1920, that compensation rates among comparable population groups of working women and men are today within two cents on the dollar of absolute parity, and that this country's graduate schools now confer a majority of advanced degrees upon women. Kaminer is evidently unaware that women are starting their own businesses at a rate that far exceeds that for men (two-to-one), and that these CEOs are succeeding despite "worker protections" enshrined in antique labor laws and regulations designed decades ago, not least to "protect" women from fully pursuing economic opportunity. If feminists want to resist further progress, they're free to do so, and they can allege antifeminism if they please. But Kaminer should not be surprised when postfeminists pay scant attention and instead organize themselves to move forward.

Progress noted, it is true that the reality of today's civil society is not what anyone but a fool would claim to be ideal. For example, and contrary to Ms. Kaminer's egregiously disingenuous report, IWF Executive Director and General Counsel Anita K. Blair has been steadfast in advocating that the serious matter of domestic assault be addressed locally, where those closest to its incidence can intervene promptly, both with respect to prevention and prosecution. There can be, and is, legitimate disagreement over what the best approach may be to this and a host of other phenomena that reflect social ill-being. But Kaminer reported Blair's well-informed discussions of conflicting incidence data as denial that the problem of domestic assault exists. Kaminer owes herself an examination in the mirror of intellectual honesty, and she owes Blair a public apology.

Kaminer asserts that, "Selling libertarianism (economic libertarianism, that is), . . . the Independent Women's Forum is the women's auxiliary of the conservative elite." IWF has never published a single word espousing economic libertarianism (or any other ideology); neither has it ever claimed to be the auxiliary of any elite—conservative, liberal, or partisan.

Perhaps IWF's postfeminist classlessness is what has Kaminer eating so many lemons that she fails, utterly, to comprehend the humor she excoriates as "gender solidarity (girlishness)," her conclusion regarding the *Quarterly*'s tongue-in-cheek approach to, shall we say, between-the-sheets magazine promotion. Kaminer's misperception of a saucy advertisement and several humorous articles (cited with equally cynical dourness) is something this reader found howlingly funny in its oh-so-knowing and oh-so-condescending uncomprehension. Poor Kaminer. Perhaps a kind Radcliffe colleague will offer her a supply of sugar.

I would be remiss if I failed to note briefly the second part of Kaminer's article, in which she mixes limited commentary on IWF with what purports to be reportage and analysis of the Women's Freedom Network (WFN). I am well acquainted with a number of WFN's leaders, and they can certainly speak for themselves. I simply caution that if Kaminer's treatment of WFN is as accurate as her presentation of IWF, all of us who read "a journal for the liberal imagination" would do well to conduct our own investigations.

Elizabeth B. Lurie
Washington, D.C.

Ms. Lurie is president of the Independent Women's Forum.

WENDY KAMINER RESPONDS:

I described Danielle Crittenden as a columnist for the *Women's*

Quarterly because she is one: Her "Diary" appears in every issue. No disrespect was intended. I've never considered "columnist" a term of opprobrium.

I quoted and characterized Anita Blair's remarks about domestic violence accurately: While conceding that victims of domestic assaults "need our help," she questioned whether many such victims existed. "Actual injury producing domestic assaults by men against women" are "few in number," she wrote. I did not, however, accuse Blair of denying that the problem of domestic assaults exists (although she surely minimizes it). I simply used her remarks as evidence that conservative critics of the women's movement habitually dismiss feminist protests of sexual violence.

I leave it to readers to decide for themselves whether sexual equality has been achieved, as Lurie suggests. I stand by my characterization of IWF as an advocate of free markets—and I would assume by her letter that Lurie herself is one. Only a free marketeer would label liberal advocacy of antidiscrimination laws "Marxist." I'm puzzled by Ms. Lurie's pique at being accused of harboring an "ideology." (Are ideologists unfeminine?) I'm also puzzled by her tone. She doesn't sound like a woman who found my essay "howlingly funny." What sour letters she must write when she's not amused but angry.

More Social Security Scares

To the Editors:

"The Great Social Security Scare," by Jerry L. Mashaw and Theodore R. Marmor [*TAP*, November-December 1996], is great in debunking the claims of those who would destroy our Social Security system in order to "save" it. Unfortunately, both the authors and Robert Ball, whose proposals they incorporate, accept "reform" that would unjustifiably reduce Social Security benefits.

Taxing more of benefits, adjusting the cost-of-living allowance, or raising the ages at which the elderly would receive full benefits are all methods of cutting what retirees would receive. Why do so? It is true that the elderly no longer have a poverty rate higher than that of other adults. But is that a reason to make them sacrifice? If for some reason Americans have to live less well—hardly a reasonable proposition—why should the elderly be the ones to suffer the losses?

The only economic argument is that as the elderly become a larger proportion of the population, we can no longer afford to allow them to live as well. But that is palpably false. With even the very modest growth of 1 percent per year in output per worker that we have experienced in the past (as I have explained in articles in the *Wall Street Journal* and the *New York Times*) there will be enough in real goods and services and income for all—children, working adults, and retirees—to have much more in future years.

The argument then turns, spuriously, to the need to replenish the Social Security trust funds. But these are accounting constructs, which can be changed as easily as they were set up, with no real change to the economy and no changes in taxes or benefits. Under current law the funds' revenues are essentially our payroll taxes, currently totalling 12.4 percent on employees and employers, and the "interest income" credited by the Treasury to the fund balances, the nonnegotiable Treasury securities representing the sum of past surpluses. We need merely change the law so that more of our existing taxes be credited to the funds and/or a larger rate of return be credited to the fund balances.

One way of crediting more taxes to the funds would be to say that, for example, a portion of our corporate and individual income taxes equal to 1.5 percent of our taxable incomes would be allocated to the funds. Since all of our taxes in effect go into one big Treasury pool, however the accountants may credit matters, and our Social Security benefits come in Treasury checks out of that same pool, this change in allocation of taxes is of no real substance. But it would very simply eliminate the shortfall currently forecast to begin in 2029!

Another method of meeting the alleged shortfall would be to credit the funds with the income taxes paid on the nondeductible proportion of Social Security payroll contributions—all of employee payroll taxes and half of those paid by the self-employed. This could be supplemented by crediting the funds a higher rate of return on their balances, say 9.8 percent instead of the current 7.8 percent. Such a change would be consistent with the argument of privatizers that rates of return are higher in the stock market. It makes good sense for Social Security contributors to get credited with the return presumed to be available in the economy.

It is frequently argued that "entitlements," and particularly Social Security benefits, have to be cut to reduce the deficit. As the fine article by Karen Paget, "The

Balanced Budget Trap," [*TAP*, November-December 1996] makes clear, there is hardly any need for further deficit reduction. Indeed, maintenance of a constant debt-to-GDP ratio, a more meaningful measure of balance in a growing economy, is consistent with a much larger deficit.(This would equal the debt-GDP ratio times the rate of growth of nominal GDP—a correction of Paget's formulation—or currently 50 percent of 5 percent, hence 2.5 percent of GDP or about $185 billion as against the actual 1996 deficit of $107 billion.)

In any event, there is neither sense nor justice in cutting Social Security benefits.

Robert Eisner
Evanston, Illinois

Robert Eisner is a past president of the American Economic Association and the author of The Misunderstood Economy: What Counts and How to Count It.

[Editor's note: For more discussion of Social Security, see "Controversy," page 16.]

Positive Thinking as Policy

To the Editors:

In his "Conceding Success" [*TAP*, November-December 1996], Richard Rothstein continues his Norman Vincent Peale "Power of Positive Thinking" odyssey he began in his "Friends of Bill?" [*TAP*, Winter 1995], where he berated liberals for failing to stress Clinton's achievements.

In his current venture, Rothstein appropriately mobilizes Greg Easterbrook and his *Moment on the Earth* as a model of how liberals should reorient themselves in "conceding success." Easterbrook's book is a fundamental attack on the environmental movement for errors, exaggerations, and panic mongering. He not only urges environmentalists to stop whining and concede success, he lauds business for its new ecorealism and paints a rosy picture of an imminent smog-free future. His book was greeted with enthusiasm by the antiregulation right and business community as it gave them a superb weapon against environmentalist claims as well as against the very idea that the environmental threat was real, let alone pressing. Easterbrook calls for rigorous enforcement of environmental laws, but his denigration of environmentalists and his environmental bullishness are so incompatible with an atmosphere conducive to rigorous enforcement that the *Business Week* reviewer of his book says the contradiction "makes you wonder what he is talking about."

Easterbrook's political naivete is extraordinary—his "coming age of environmental optimism" (the book's subtitle) and "positive politics" seem to be based on the belief that "right-thinking liberalism has prevailed and is on the verge of conquering every obstacle that lies in its path. Vested interests, political opposition, market barriers—none of these factors are mentioned." (biologist Richard Raven). The book hit the market just as the Gingrich cohort took power and as business was showing an aggressive determination to push through a radical deregulation agenda. This should have made the book a laughing stock for Panglossian irrelevancy, but didn't.

Citing Easterbrook, Rothstein asks: "Might not liberals be more successful if we spent more time bragging about what a good job's been done, and less complaining about how much is left to do?" But what motivates people to environmental action is a strong sense of environmental threat. The call to celebrate successes is politically foolish in a double sense—it misperceives what drives people to political action, and it fails to recognize that focusing on past successes is an expression of complacency hard to reconcile with mobilization for reform (especially if the expressions of complacency come from environmentalists, who, as Easterbrook suggests, tend to exaggerate). Easterbrook acknowledges, but doesn't give much weight to, the fact that environmentalists' passion and "panic" were important in getting in place the laws that he and Rothstein want them to celebrate.

Rothstein also supports Easterbrook's claim that the environmentalists "sacrifice credibility by downgrading environmental progress," and he suggests that "The result is a dwindling constituency for new environmental regulation. . . ." Rothstein merely asserts that it was the failure to celebrate successes that explains any dwindling of environmentalists' credibility or constituency. Other possibilities are that books like Easterbrook's, and well-funded industry propaganda and disinformation, have taken a toll, or that the major environmental groups have been coopted by business and Clinton-Gore "access without power." But like Easterbrook, Rothstein doesn't mention business interests and lobbies, the work of business-funded think tanks, and any possible media bias. We are to believe that if the environmentalists had bragged about their victories, and didn't cry wolf, they

would be more successful. As analysis this is worthy of Norman Vincent Peale.

Edward S. Herman
Penn Valley, Pennsylvania

Mr. Herman is a professor emeritus at the Wharton School. His response to Rothstein's article on Clinton appeared in TAP*'s Spring 1995 issue.*

Richard Rothstein Responds:

Edward Herman may be correct when he claims that "what motivates people to environmental action is a strong sense of environmental threat." But activists are not an effective majority in our democracy, so those who are serious about environmental protection and other social change must ask not only what motivates people to action, but also what motivates nonactivists to support it. And here the problem gets too complicated for Herman's comfort.

He seems to think that notwithstanding visible examples of environmental improvement (cleaner air, cleaner water), as well as less visible ones (as I write this, wolves are being reintroduced to the Adirondacks) and invisible ones (international regulation of CFCs), the only way to mobilize majority support for environmentalism is to tell people to ignore their commonsense perceptions—to insist that past efforts at environmental regulation have, in reality, failed, so we should do more of them. I conclude, to the contrary, that such a strategy can never succeed for long. The American people are not fools. They are not likely to heed calls for environmental regulation if environmentalists preach to them that environmental regulation has never worked. They are especially unlikely to waste their time and energy in support of reform if Herman persuades them that "business interests," "media bias," and "well-funded propaganda" are so all-powerful they will invariably defeat every reform effort. Most Americans would rather be on the winning side. A permanent effort to recruit them to glorious martyrdom is bound to fail.

Herman unashamedly praises a "cry wolf" approach to environmental problems that even young children learn has rapidly diminishing returns. As I suggested in "Conceding Success," this strategy reflects a political immaturity that threatens the future of American liberalism in a broad range of endeavors, including, for example, the defense of public education and of social welfare. What Ed Herman should have learned from his bedtime stories is that credibility is a precious asset. Those who squander it are ignored when mobilization against real threats is required. I would never suggest that liberals' willingness to squander their credibility with mindless doomsaying was the sole cause of the Gingrich revolution, but it has certainly helped.

Constitution and Community

To the Editors:

Like Alan Brinkley, I would relish a reinvigoration of a sense of national community in the United States, as he argues in his article "Liberty, Community, and the National Idea" [*TAP*, November-December 1996]. Unfortunately, contrary to Brinkley's historical analysis, the Constitution of the United States itself undermines a sense of national community. James Madison and Alexander Hamilton, whom Brinkley refers to, wanted a national government, but they didn't get it. Instead Madison and Hamilton were compelled to accede to those in the Convention who feared national control over the states. In doing so they accepted the separation of powers or, put more accurately, established a system of conflicted or divided government. The Convention also gave the Senate, which spoke for the states, the same full legislative power as the House of Representatives. Moreover, the Senate's membership could not be reduced except by the consent of the states. And as Bob Dole likes to remind us, Madison added the Tenth Amendment to the Bill of Rights. Only because the Supreme Court, under some duress, was able to draw upon the commerce clause of the Constitution for the New Deal was the government able to use legislative authority for national issues like agriculture, working conditions, and social security. None of that authority was given to the federal government by the Constitution. The tenuousness of that judicial authority is still with us. As recently as last year the Rehnquist Court withdrew that judicial interpretation in the *Lopez* case over gun control in Texas schools.

The point here is not that the Constitution should be changed or revised, but that it can't be altered, since the American people like conflicted or divided government. It protects them from an overweening national government in Washington. It began with the Constitutional Convention and that is where Americans still stand, except on certain rare occasions such as during the Civil War or the Great Depression. No such

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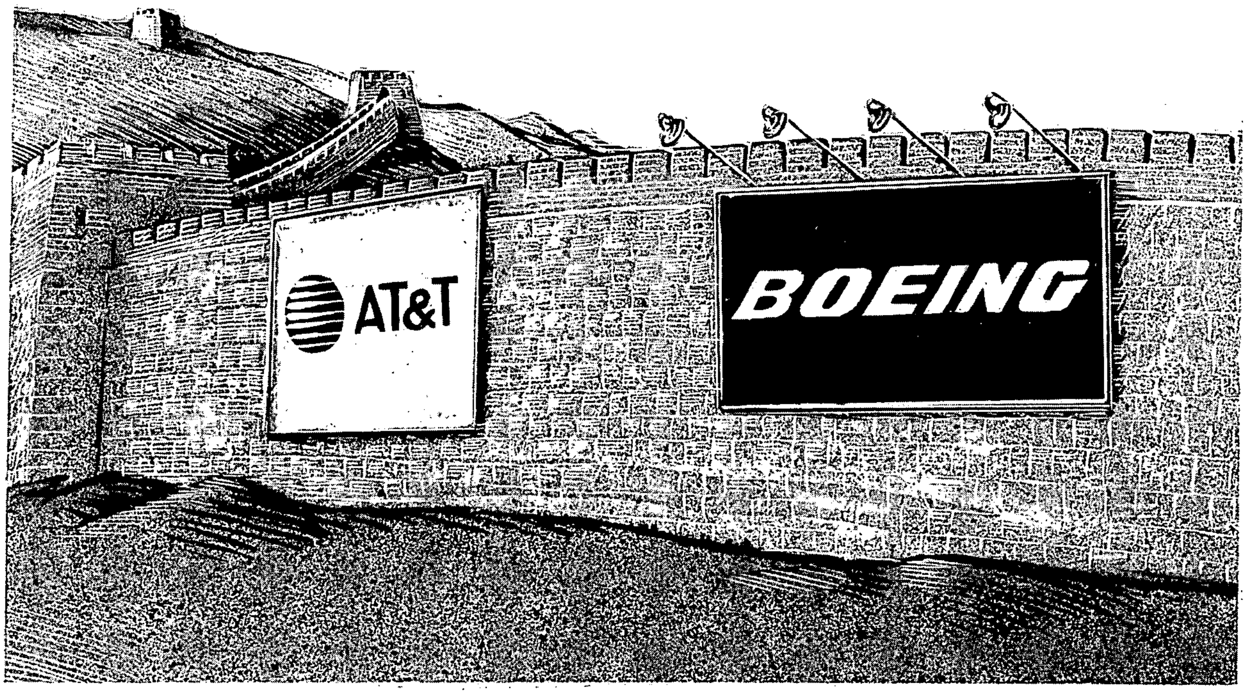
BREACHING THE GREAT WALL

BY CHALMERS JOHNSON



Few nations loom larger on the global economic radar screen than China. In 1993 the World Bank estimated that China had the world's third largest economy but was the fastest growing of them all. The Central Intelligence Agency, which already considers China's economy to be the world's second largest, estimates the Chinese will surpass the United States in total GDP well before 2020, the target date for the Pacific free trade zone promised at the Seattle, Bogor, and Osaka summit meetings of Asia-Pacific Economic Cooperation. One analyst calculates that by 2020 China's economy will be 40 percent larger than ours and that four of the world's five largest economies—China, Japan, India, and Indonesia—will be in Asia.

Given China's size and population we should of course expect its economy to eventually overtake the United States's in magnitude. China's economic development is also politically desirable—it is most likely to become a force for stability and peace when

its people have a substantial stake in economic prosperity. But so far China's progress on political liberties has disappointed; if anything, economic success has reinforced the political establishment's belief in its repressive political philosophy. Meanwhile, China's growth has extracted a price from the United States. As of this year, the United States has a larger trade deficit with China than with any other nation, thanks in part to a nationalist trade policy that grafts Japanese-style mercantilism onto China's current "soft totalitarianism." China continues to block access to its markets; it continues to provide cheap workers, including children and prisoners, whose presence undercuts labor's ability to bargain for higher wages and benefits in the United States. The piracy of intellectual products such as music and software remains a problem, siphoning literally billions of dollars that might otherwise flow back into U.S. firms and—eventually—the U.S. workforce.

> China's protectionism may not be a problem for the U.S.-based companies that do business there, but it is a threat to American economic interests.

Despite such troubling news, and despite 1992 promises about taking a hard line on human rights, the Clinton administration remains surprisingly confused in its China policy. While aggressively promoting the interests of a few U.S.-based multinational companies seeking access to the Chinese consumer market, the Clinton administration has refused to condition market access to the United States on reforms, as was at least attempted (with mixed success) in the case of Japan. The Clinton administration has negotiated two agreements with China to end piracy of intellectual property, but the U.S. Trade Representative's office is far too small and too understaffed with Asia specialists to monitor such agreements. Clinton has consistently failed to retaliate against violations of such agreements for fear that the economics tenurocracy and other ideologists might label him a "protectionist." Finally—and perhaps most memorably—Clinton has decided not to use China's most favored nation trading status as a bargaining chip on political rights and labor standards, arguing that the U.S. will be more influential and the world will be more secure if the United States maintains a friendly diplomatic posture.

In fairness to Clinton, his stance on human rights may be more defensible than his critics concede—it's not entirely clear how much leverage the U.S. has in this realm. Similarly, the national security implications of a more antagonistic relationship are hardly trivial. But when it comes to the balance of trade, at least, the decision not to play hardball with China is troubling. So long as China fuels its growth by engineering massive surpluses with consumer nations, its ascendancy will jeopardize the well-being of the U.S. economy by siphoning away capital for investment and, eventually, dragging down the standard of living for American workers.

The good news is that the next four years will present several opportunities to redefine the U.S.-China relationship, beginning with the expected consideration next year of China's membership in the World Trade Organization (WTO). The bad news is that Clinton's unwavering commitment to highly abstract principles of free trade—as preached by both the American economics establishment and prominent members of the administration—makes a policy switch highly unlikely.

Appeasement of China

In the textbooks, free trade is supposed to be mutually beneficial to all involved, expanding the global economic pie and spreading prosperity across borders and down the income scale. Nations agree to drop tariffs and other policies that protect domestic industry in the hopes that expanded trade will translate into more business overall. It sounds great but to work in practice, free trade requires tolerable symmetry—a mutual commitment among participating nations to disavow promotion of domestic industry at the expense of trading partners.

Until 1995, trade among the so-called "free market economies" was governed by the General Agreement on Tariffs and Trade (GATT). In January of that year, the GATT nations, with Clinton's eager support, agreed to institutionalize the WTO. While GATT's purpose was in large part strategic—the United States traded access to its lucrative consumer market and technologies to

cement anticommunist alliances with nations such as Japan, South Korea, and Taiwan—WTO's primary rationale is the expansion of free trade for its intrinsic economic value.

The problem with the WTO treaty is that it does not outlaw the main protectionist practices of the East Asian capitalist developmental states but it does explicitly outlaw American attempts to protect itself from such protectionism. Tariffs are no longer important in international trade, but so-called nontariff barriers such as national industrial development policies, regulations with differential effects on foreign and domestic firms, unique standards, collusion among a country's firms to keep out foreigners (China's state-owned sector, Japan's *keiretsu*, South Korea's *chaebol*), governmental administrative guidance of privately owned enterprises, and the failure to enforce antimonopoly laws are all beyond the scope of the WTO. On the other hand, Section 301 of the American Trade Act, which allows the U.S. government to assist American firms facing access barriers in foreign markets, is explicitly barred. Unless and until the WTO faces up to the catch-22 in its charter, it remains a menace to the livelihoods of all working Americans. WTO is starting to work only because its members know that without compromises it will ultimately drive the U.S. from the organization.

> China has never aimed at becoming a "market economy" but rather at exploiting other market economies in order to become a great power.

Meanwhile, WTO admission has become China's primary diplomatic goal—because it would mean even more access to lucrative markets in the United States, Europe, and Japan—and the Clinton administration has indicated it will go along without much fuss. But there's one very important catch: China wants to be admitted with the formal status of a developing country. Structurally, China is still a Leninist economy and not ready for admittance as a regular member. As a developing country, China would not have to open its markets to foreign competitors on an equitable basis, and it would be exempt from the provisions of the WTO treaty concerning subsidies, investments in China, and intellectual property rights. In other words, developing nation status would give China license to continue some of its most effective mercantilist economic policies and run up even higher trade surpluses with the United States.

The potential cost is staggering. Already, the U.S. absorbs about 25 percent of all exports from Asia and runs $100 billion annual trade deficits with the area. When China began economic reform in 1978, its foreign trade totaled $20.64 billion. By 1993 it had increased 950 percent to $195.8 billion. The Europeans and Japanese also run trade deficits with China, but the U.S. trade deficit is approximately 2 to 3 times those of the other major trading powers. Some 80 percent of China's exports are manufactured goods. China is the world's largest textile exporter and the largest source of American textile and apparel imports. International agreements are supposed to control the international textile trade, but China gets around them by transshipping through third countries and often by attaching false labels to avoid exceeding the quotas to which it has agreed. "Made in Turkey" labels are common in Chinese leather jackets.

Of course, admission to WTO would hypothetically require a real commitment by China to end such ruses, to make progress on political liberties, to stop the use of prison labor, and to live with a more balanced trade relationship—in other words, a country needs to show development to maintain developing nation status. Yet China hasn't cracked down on prison labor or cut back on extensive subsidies to state industries, as it promised. China cannot politically face the unemployment that ending subsidies would cause and regards foreign demands that it do so as attempts to subvert its political system. Nor has China abandoned its strategy of swapping market access for technology transfers from other nations. In 1995, for instance, China very successfully played off General Motors against Mercedes-Benz over which company would give China the most technology in return for the right to manufacture and sell in China for fixed periods of time. Both ended up giving to China sophisticated technology to design and build new models.

This strategy that merges "the teachings of Chairman Mao with the economic experience of

Japan," as Greg Mastel of the Economic Strategy Institute puts it, is the reason *Business Week* noted last year that "China may already have eclipsed Japan as America's number one trade headache." In a sense, the China trade problem is not a trade problem at all but one of "systems friction," the clash of different forms of capitalism. One of the secrets of China's development strategy, which borrows heavily from the experience of Japan and other successful Asian nations, is to bend the rules and norms of capitalism in order to achieve national wealth and power. In this view, economics is inevitably a zero-sum game, in which some nations win and others lose. China has never aimed at becoming a "market economy" but rather at engaging and exploiting other market economies to become a great power. It undertook economic reform in order to preserve the Communist Party's political control and to achieve through other means what it had failed to achieve through Leninism.

What's interesting about this strategy is that other nations—including the ones who invented the strategy—show relatively little patience with Chinese demands. When China insisted on technology transfer in automobile manufacturing, Japan said "no thank you" and opted out of the race. Japan has increasingly rebuffed China and taken its investments elsewhere, astutely parlaying the neighborhood effects of China's discovery of the market in order to expand its own market share in countries like Indonesia and India. Japan's approach is quite clever: Because China is currently attracting so much foreign investment, countries like Indonesia have liberalized their economies in order to grab a share of the available investment funds and not be left behind. As of mid-1995, Japan had invested $8.7 billion in China, but that was less than it had invested in the city state of Singapore ($9.5 billion) and half of its investment in Indonesia ($17 billion).

The United States potentially has a very strong hand when it comes to dealing with China. Precisely because the United States purchases so much of what China produces, even a partial loss of access to the American consumer market would be a crushing blow to Chinese economic expansion. Yet because such a threat would violate the precepts of free trade, that option is not under consideration. Instead, Clinton's strategy has been primarily to try to induce or cajole China into reforming itself to look more like the American form of capitalism, through relatively modest changes. Thus, on November 10, 1994, the *Washington Post* editorialized that in order to get into the WTO, China would have to (1) publish its trade regulations in a transparent form accessible to importers, (2) ensure that all foreign and domestic companies receive the same treatment from the legal system, and (3) stop using artificially low exchange rates to boost exports and impede imports.

Unfortunately, this advice is based on a false premise—an economic determinism almost as rigid as that of the Marxist-Leninists. As explained by Henry Rowen, President Reagan's former national intelligence chief, writing in the Fall 1996 issue of the *National Interest*, the theory is that policies like the kind described in the *Washington Post* will cause democracy to break out in China "around the year 2015." Rowen believes that the "United

States should . . . make most-favored national status for China permanent and impose no extra obstacles to its admission to the World Trade Organization," in order to facilitate this development. And if China resists? He suggests that the United States discipline China not through economic means but by "our taking actions in the security domain."

But this counsel courts real disaster. Any attempt to contain China militarily will surely bankrupt the United States, separate us from our Japanese allies, and militarize the Chinese leadership; if a war ever did ensue, the U.S. would probably lose. Besides, China's developmental strategy depends on peace in East Asia and cooperation from the 55 million overseas Chinese. Those are greater constraints on Chinese behavior than any forward deployed American troops that no one believes would ever be used in a war with China.

The real problem with the *Washington Post*'s position, however, is that even if China agreed to such terms, an imbalance would persist because of cultural differences between Chinese and American business relations. In a speech to businessmen in Tokyo, the vice president and senior economist for J.P. Morgan in Asia, Huan Guocang, advised, "It is extremely important for . . . investors to develop solid working relations with local authorities in the regions where they have committed capital investment, as such working relations can enhance their operations and hedge against potential economic and political risk." This is a polite way to stress the importance of *guanxi* (connections or networks) in all Chinese trade dealings and helps explain why the overseas Chinese—who have established intricate and successful transnational networks—have been so far ahead of everyone else in trade and investment in China.

This, at last, is the heart of the matter: Simply requiring China to drop its tariffs, abolish prison labor, or stop domestic subsidies is only the first step toward symmetry. Writing in *Asian Survey*, Maria Hsia Chang explained,

> Quite apart from their complementary interdependencies, the economic integration of Hong Kong-Taiwan-Guangdong-Fujian is fueled by the ability of the overseas Chinese to understand, utilize, and exploit *guanxi*, the predominant mode of getting anything done in mainland China. More often than not, *guanxi* includes bribery, backroom and insider dealings, and other forms of corruption that have become pandemic in China. Because of their language and cultural affinities, not to mention kinship ties, ethnic Chinese are better able than non-Chinese to develop *guanxi*—and thus to do business in China.

Managing a Better Relationship

So if simply forcing China to end protectionist policies isn't enough, what is? How does the United States promote China's economic development while preventing predatory trade from provoking international conflict? The answer is managed trade—using public policy to manage outcomes rather than procedures. It assumes that when private companies in different economic systems trade with and invest in each others' economies, a mutually beneficial outcome cannot be assured merely through an agreement on the rules.

A great deal of international trade is already managed—in petroleum, steel, textiles, agricultural products, electronic goods, and many other products—even though global commerce continues to expand to unprecedented levels. Still, the U.S. refuses to recognize that management is needed and it therefore does a poor job compared with other trading nations. Trade management need not seek exact bilateral balances or zero trade deficits. Its criterion should be the health of domestic high-value-added industries—in other words, those that provide technologically advanced jobs for American citizens.

In 1960, at the height of the Cold War, when the United States began to trade with Poland, Romania, and Hungary, it set goals that these Leninist countries had to meet. The United States required that Poland absorb more imports produced in GATT countries—a 7 percent annual increase—or else trade would be cut off. As Greg Mastel says,

> The parallels between the challenges the GATT faced thirty-five years ago with Poland and the current challenge of integrating China are compelling. Both cases involve an apparent desire on the part of a non-market economy to move toward becoming a market economy, but with central planning systems still in place and functioning. . . . If China's accession agreement [to WTO] were to include both targets for increased imports from WTO members into China–perhaps tied to

growth rates or other relevant economic factors–and also special safeguards, many potential economic problems could be addressed.

China will pose the most difficult test of foreign economic policy in the twenty-first century.

Another example is semiconductors. In 1986 the American semiconductor industry was headed for the same graveyard in which the whole American consumer electronics industry is buried. This situation changed with the Japanese-American semiconductor agreement, which demanded and got 20 percent of the Japanese market for imports, and by domestic company reforms, including the creation of a joint research consortium. Today both Japan and the United States enjoy thriving semiconductor industries. The competition between them gives rise to the innovations and price reductions that are occurring, for example, throughout the computer and telecommunications industries.

It is therefore surprising that the Japanese have vowed never again to enter into such an agreement, and American newspapers, such as the *Wall Street Journal* and the *New York Times*, editorialize against negotiated market shares among different kinds of capitalist systems. This suggests that the Japanese in 1986 actually wanted to destroy the American semiconductor industry rather than achieve a healthy trading relationship with the United States, and that Americans are still so deluded by economic ideology they are unable to recognize their own success.

There is no question but that America's trading partners would grumble about an invigorated American economic policy. But that would only signal the end of the Cold War trade-off between access to the American market and such things as overseas basing rights for American military forces. The current pretense that the United States can continue to play the same international economic role it did during the Cold War is the real source of instability in the trading system and in U.S. relations with China.

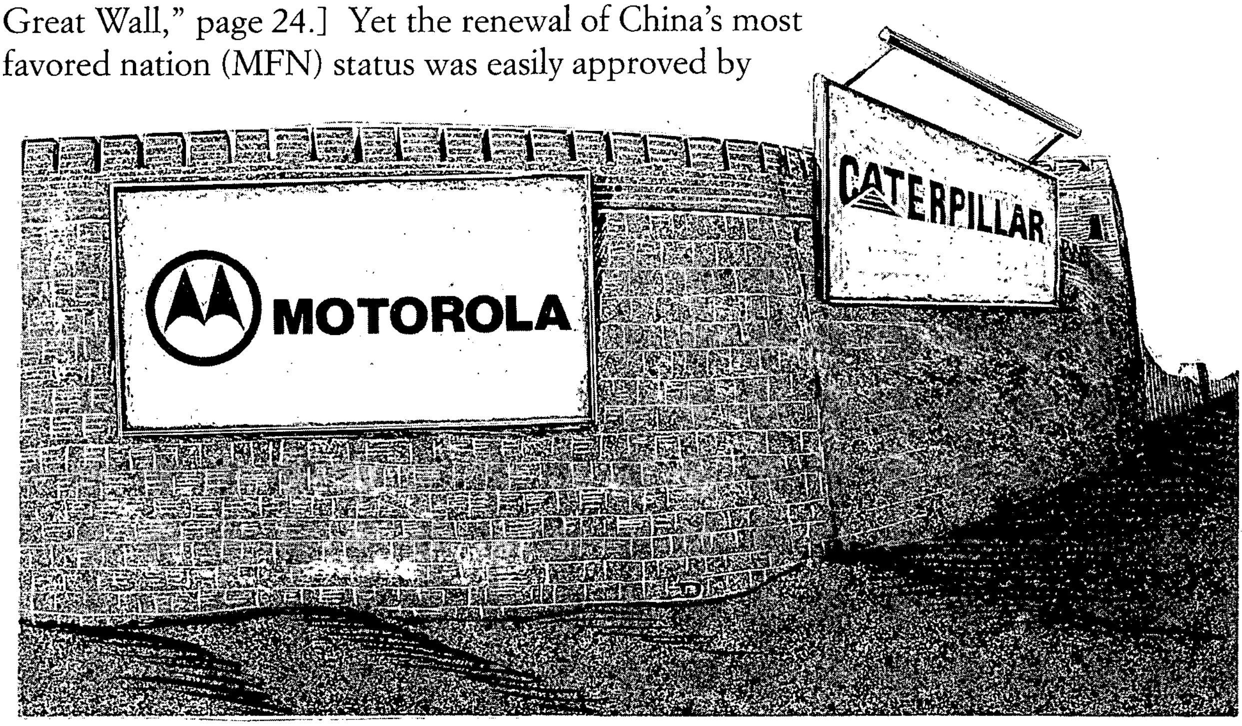
The economic challenge of China will be the most difficult test not just for American foreign economic policy but for American foreign policy in general in the first quarter of the twenty-first century. Unfortunately, Americans still remain confused by the shift in the nature of power from military strength to economic and industrial strength. They tolerate and even applaud bloated, irrational defense budgets while doing nothing to rebuild and defend the industrial foundations of national security. It is not that the Americans are incapable of competing on this front. They actually have a good record of institutional innovation when they recognize that this is where the plane of competition lies. The problem is one of political leadership, mobilization of the country, appropriate staffing of the government, and redirection of the foreign affairs, defense, technological, and intelligence agencies to pay attention to Asia in general and to China in particular. Unfortunately, there is absolutely no sign that this is actually happening.❑

THE NEW CHINA LOBBY

BY ROBERT DREYFUSS

Just before the November election, concern about foreign influence over U.S. trade policy suddenly emerged amid revelations that the Clinton campaign had accepted (and then returned) illegal donations from wealthy East Asian nationals. But as the media focused on the connections of one fundraiser to the White House and the debate became tinged with xenophobia, a bigger story of influence-peddling got lost: the role of multinational corporations that nominally fly the American flag.

Nothing reveals this pattern better than the recent history of the U.S. relationship with China. China has been under fire for violations of both human rights and commercial rights. It routinely ignores intellectual property protections, and it closes its domestic market to much that the U.S. might export. By 1995, China's trade surplus with the United States had ballooned to an embarrassingly high total of $34 billion, heading upwards. [See Chalmers Johnson, "Breaching the Great Wall," page 24.] Yet the renewal of China's most favored nation (MFN) status was easily approved by



Congress in 1996, and its membership in the World Trade Organization will likely follow. Bipartisan trade policy takes it for granted that integration of China into the global trading system serves both U.S. and Chinese interests, with surprisingly little attention to the terms of engagement. The real issue, however, is not whether China, with its 1.2 billion citizens, should be admitted to the global trading system, but whether that admission should be essentially unconditional. Thanks to the new China lobby, the interest of U.S. firms in China's cheap labor has overwhelmed all other concerns.

The Power Behind MFN

The power of the new China lobby was evident in Beijing last March 7, when more than 100 representatives of major U.S. firms held their annual conference under the auspices of the U.S.-China Business Council. Delivering his first major speech since taking office just weeks before, U.S. Ambassador James Sasser told them that the Clinton administration was counting on aggressive pressure from business to secure renewal of MFN status for China. "[Sasser] also suggested that CEOs make personal calls on Congress when they wish to relay their concerns on major China-related issues, such as MFN," reported the *China Business Review*, the bimonthly magazine of the U.S.-China Business Council. "Nothing," he said, "makes an impression on a member of Congress like a visit or phone call from a CEO from the member's district or state."

Of course, the Fortune 500 companies that comprise the U.S.-China Business Council—led by Boeing, Motorola, Caterpillar, AT&T, and the American International Group (AIG)—hardly needed Sasser's encouragement. They have been working the halls of Congress intensely since the 1972 opening to China by President Nixon. Lured by the prospect of 1.2 billion low-wage workers and eager consumers, America's corporate elite have done a fine job unofficially representing the Chinese government in Washington.

Even as Sasser spoke, the lobby's troops were being mobilized back in Washington. A coalition of America's largest companies, drawing on their experience in the battle over the North American Free Trade Agreement (NAFTA), had already begun to rally trade associations, lawyers, and corporate officials for the perennial battle to assure that China continue to receive the benefits of MFN. The business lobbyists were worried that, however unlikely, a coalition of labor, consumer, environmental, and human rights groups in Washington, joined in odd alliance with the dwindling remnants of the right-wing Taiwan lobby, might manage to raise a brouhaha about China and win a House of Representatives vote later in the year revoking MFN.

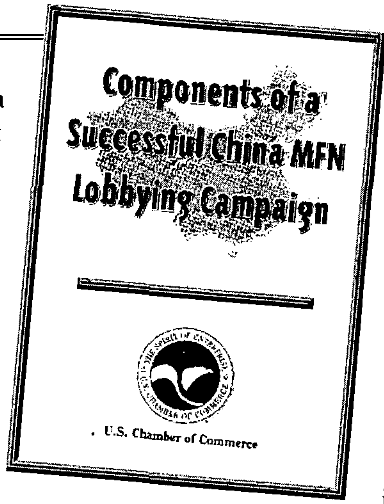
Three months before the vote, the omens were not good. China, unpredictable as always, had roiled the situation by firing missiles in the Taiwan straits on the eve of elections there. A controversy had erupted over China's cavalier treatment of U.S. intellectual property in computer software, movies, and compact disk recordings. Concern was growing about the environmental implications of Beijing's plan to erect a dam in the Three Gorges area of the Yangtze River. There were reports that China was selling nuclear technology to Pakistan. And there was the ever-present worry about China's human rights policies, from suppression of dissidents to the use of slave labor to forced abortion and sterilization. All of the uncertainty worried lobbyists for business. "We never take anything for granted," says Calman J. Cohen, head of the Emergency Committee for American Trade.

> China doesn't need to lobby the U.S. government—it has the Fortune 500.

Yet in the end, the 286-141 vote in the House on June 27 endorsing China's MFN status was so lopsided that opponents minced no words about how badly they were defeated. "There wasn't even a debate. There wasn't even a contest. We just got shellacked," said Jock Nash, Washington counsel for Milliken & Co., a large textile company that objects to the flood of Chinese-made clothing coming into the American market. So powerful was the lobbying to renew MFN that the issues involved in a debate about what kind of trade policy America ought to have—about whether unfettered trade with developing nations adds jobs through exports or subtracts them through cheaply made imports, and about using America's economic power to balance business concerns with labor rights—were

lost. Instead, members of Congress gave in to unrelenting pressure from industry, which claimed in estimates writ large and in district-by-district totals, that denying MFN to China would cause hundreds or thousands to be laid off back home. The 1990s version of the 1950s-era McCarthyite query "Who Lost China?" was, "Who wants to be responsible for losing jobs created by trade with China?"

> A beleaguered staffer who opposed MFN sent out a distress call: "Help! Send reinforcements! Our office is being invaded by Westinghouse."



China is fast becoming America's most troublesome trading partner. The growing imbalance, which this fall became America's largest trade deficit, is no accident. It is the result, at least in part, of aggressively nationalistic policies by the Chinese government designed specifically to build up surpluses with such wealthy consumer nations as the United States. Whether revoking MFN is the right instrument for correcting that imbalance is admittedly a complicated question: It could force trade concessions from the Chinese or it could—as defenders of MFN status claim—provoke a backlash, in the form of military tensions or economic retaliation. But those questions never got a fair hearing in 1996, thanks to industry pressure.

The story of the MFN battle is a parable for U.S. foreign policy after the Cold War. Globally, U.S. policy is a themeless pudding, consisting of seemingly ad hoc reactions to random hot spots from Bosnia to Somalia, from Haiti to central Africa. Yet if any consistent theme is beginning to gel, it is that American foreign policy is reverting to dollar diplomacy. In championing NAFTA and the General Agreement on Trade and Tariffs (GATT), in delinking China trade policy from concerns about human rights, and in pushing the Commerce Department toward unprecedented promotion of U.S. exports and investment opportunities abroad, Clinton has cemented economic concerns as the cornerstone of foreign affairs. Even the State Department, the Pentagon, and U.S. intelligence agencies have been asked to use their special skills to advance American commerce. For 1997, Willard Workman, international vice president for the U.S. Chamber of Commerce, says that business wants to strengthen the Overseas Private Investment Corporation and Export-Import Bank, adding, "We'd like to see a further reorientation of our embassies in the direction that, now that the Cold War is over, it's economic policy that's most important. We won the war. Let's reap the benefits."

This transformation of foreign policy into economic policy was inevitable and, in many ways, welcome. Ambassador Sasser and the U.S. diplomatic corps in China excel at representing the interests of American exporters seeking markets, U.S. importers seeking cheap goods, and investors in search of opportunities for joint ventures and low-wage labor. But whether such activity serves the interests of the average American remains an open question. Representatives of U.S. industry argue that freer trade with China means more access to Chinese markets and thus more jobs back home in the states. But U.S. exports to China amount to a mere 2 percent of overall American exports. Industry's real interest in China is its direct investment there (more than $25 billion), and its revenue from exporting such Chinese-made goods as electrical machinery, clothing, textiles, shoes, and toys back to the states. These exports are highly profitable for the companies, but they undercut labor's bargaining hand—and frequently take away jobs—in the United States, even as they provide a cheap source of goods. Meanwhile, China demands that U.S. companies relocating there hand over access to high-technology trade secrets and know-how. The companies don't much mind, but are such transfers really in the best interests of the U.S.?

Although quid-pro-quo sanctions and managed

trade are practically taboo in most elite circles, there are legitimate and well-respected arguments for aggressively pursuing a more balanced relationship with China—one in which China could continue to grow economically, but not by exploiting Chinese workers or depressing living standards in the United States. These arguments come not just from organized labor, whose skepticism of rapidly expanding free trade is well known, but also from centrist organizations that understand the strategic value of economic power, such as the Economic Strategy Institute, which is headed by a former Republican official, Clyde Prestowitz. These arguments are sure to come up again in the next four years, yet if the battle over MFN last year is any indicator, lobbying by U.S. business interests will bolster the policies of the status quo.

China's Best Friends

Officially, Beijing is represented in Washington not only by its embassy, but also by Jones, Day, Reavis and Pogue, a large blue-chip law firm with offices in 10 countries, including Hong Kong, Taipei, Tokyo, and New Delhi. More than 150 lawyers populate its offices in downtown Washington, D.C. The Cleveland-based firm, which is also a member of the U.S.-China Business Council, was paid $75,000 for lobbying services in 1995. Yet that minuscule amount pales in comparison to the tens of millions of dollars spent by the business community lobbying for China's MFN status.

In effect, the Fortune 500 have become China's public relations machine. In a presentation to the Chinese embassy in November 1995, Robinson Lerer Sawyer Miller, one of Washington's leading public relations firms, sought to win China's support for a nationwide campaign that would use America's business community as spokesmen for China. "Allies who have credibility and influence over public opinion can be a critical component of China's communications program. These include business leaders with an interest in Chinese investment," said the firm's proposal. "These allies can be organized into a force for change. They can be thought leaders and commentators who present China's viewpoints to the American public with impact and credibility." The firm, which did not get the contract, has since broken up. But it appears that Beijing is making use of precisely that model.

The leading organization of the new China lobby is the ad hoc Business Coalition for U.S.-China Trade. The coalition is coordinated by the Emergency Committee for American Trade, headed by Cal Cohen, a $1 trillion bloc of 55 major U.S. companies committed to free trade, including General Motors, Mobil, Exxon, Caterpillar, United Technologies, Boeing, Cargill, Philip Morris, Procter and Gamble, TRW, Westinghouse, IBM, and a few dozen more.

Under the umbrella of the Business Coalition is the National Association of Manufacturers, the U.S. Chamber of Commerce, the Business Roundtable, and various trade associations for specific industry groups, like the American Petroleum Institute, the Pharmaceutical Research and Manufacturing Association, and the Business Software Alliance. Also included is the ubiquitous U.S-China Business Council, which was founded in 1973 to help American companies do business with the People's Republic. Its 300 members include banks, insurers, law firms, oil companies, defense companies, drug makers, the Big Three automakers, financial services companies, retailers, high-tech companies, and scores of major industrial firms.

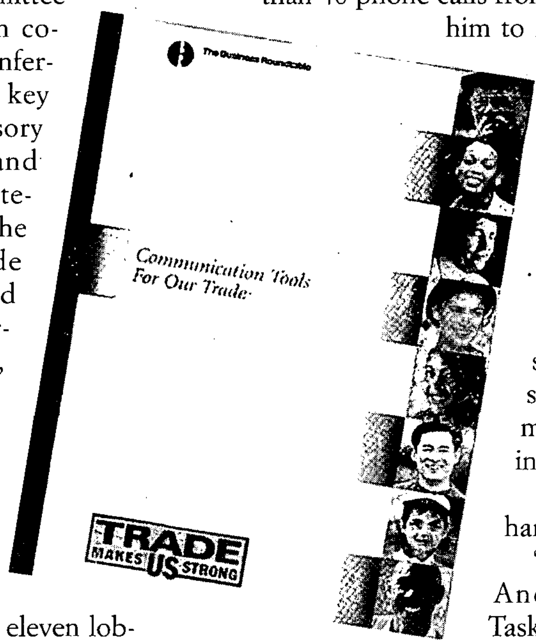
Heading this powerful coalition, and so vocal in putting forward Beijing's point of view that he might be called the unofficial Chinese ambassador to the United States, is Maurice R. Greenburg, the chairman of the American International Group, Inc., one of the world's largest international insurance companies. Some detail on Greenberg and AIG is useful here because it shows the array of power assembled by just one company—one out of hundreds that worked the halls of Congress during the MFN fight.

By a curious twist of fate, AIG was founded in 1919 in Shanghai, China, where it prospered until the communists forced it to leave in 1950. Now headquartered in New York, in 1992 AIG won for itself the honor of being the first foreign insurance company to secure a license to operate in the People's Republic, beginning in Shanghai and expanding last year to Guangzhou. Greenberg, an aggressive, take-no-prisoners manager, is an influential player in both the political and business worlds, and was once even mentioned as a possible candidate for director of the Central Intelligence Agency. AIG's operations in China are a growing part of the company's revenue stream, and the company employs thousands of Chinese insurance agents. Standing tall above the Shanghai

skyline are the gleaming towers of the AIG-owned Shanghai Centre, an office complex that houses AIG, Merrill Lynch, and many other firms. In a skillful move, Greenberg created an economic advisory body for the city of Shanghai that later helped him win his China contract when a Shanghai official became a top policymaker in Beijing.

During the China MFN campaign in 1996, Greenberg was chairman of the U.S.-China Business Council. He was also a member of the Emergency Committee; one of five members of the policy impact panel on U.S.-China relations of the Council on Foreign Relations, chaired by Henry Kissinger and Cyrus Vance; one of a handful of corporate sponsors of the so-called Committee of 100, a pro-business group of influential Chinese-Americans; an active member of the Atlantic Council and the National Committee on U.S.-China Relations, which co-sponsored a largely pro-MFN conference; and, last but not least, a key player on the President's Advisory Committee for Trade Policy and Negotiations, the official private-sector advisory committee to the Office of the U.S. Trade Representative. AIG's own board of directors includes several former Washington policymakers, including Carla Hills, a former U.S. trade representative, and Barber Conable, the former congressman and ex-president of the World Bank. Kissinger is on AIG's international advisory board. In Washington, AIG is represented by a team of eleven lobbyists and a stable of four elite lobbyist/law firms, including Skadden, Arps, Slate, Meagher & Flom, where AIG's affairs are handled by Robert Lighthizer, a top Dole adviser and former deputy U.S. Trade Representative.

In May 1996, Greenberg testified at a key congressional hearing on U.S.-China economic ties. Against a background of worries about China's aggressive military posture, human rights violations, and cutthroat business practices, he offered an apologia: "Patience is essential. We should step back, take a deep breath and examine carefully the ties that bind us together," he said. "An increasing number of Chinese genuinely wonder if the U.S. has embarked on an orchestrated campaign to obstruct their progress and to contain China's development and interests in Asia and internationally." Concerning MFN, Greenberg added, "Rather than subject ourselves each year to an unproductive war dance, we should make MFN permanent, without conditions."



Calling for Reinforcements

So hot and heavy did the lobbyists flock to the Hill during the preparations for the MFN vote that swinging the proverbial dead cat would have felled numbers of them. For example: At the height of the frenzy, Representative Howard Coble, Republican of North Carolina, mentioned at a breakfast meeting that he was leaning against renewal of MFN. By lunchtime that same day, his office had logged more than 40 phone calls from corporate lobbyists urging him to rethink his vote. And, three weeks before the vote, a Pennsylvania Democrat found his office swarming with a team of lobbyists led by Westinghouse Electric Co., a large Pennsylvania employer, provoking a call to an opponent of China's MFN status from a staffer, who said, "Help! Send reinforcements! Our office is being invaded by Westinghouse."

But reinforcements were hard to find.

"Big Labor?" asks Mark Anderson of the AFL-CIO Task Force on Trade. "I wish!" Measured against the contingent of business lobbyists—totaling 700, according to one estimate—a mere handful of opponents tried to stem the tide. They included perhaps a dozen lobbyists for the AFL-CIO and its member unions, a couple of environmentalists, Human Rights Watch, a handful of firms such as Milliken and Burlington Industries (whose business is threatened by cheap Chinese textile imports), and a few conservative anticommunists and Buchananites. Lori Wallach, who coordinated the Citizens Trade Campaign for Public Citizen, says, "Add up all the opponents of China MFN, and it equals the staff of just one of the major corpora-

tions supporting it."

For labor, which ought to have provided the muscle against MFN, the issue got lost among a host of other, more high-priority issues that the AFL-CIO was dealing with in mid-1996. "We were fighting on a lot of fronts, including OSHA, the minimum wage, and Medicare. And this became just another fight," says a labor lobbyist. Agrees Wally Workman of the U.S. Chamber, "Labor didn't push this too hard. They were afraid of offending Bill Clinton in an election year."

In the House, opponents of China's MFN status started with a core of about 70 votes, comprising a bloc of liberal Democrats allied with labor and conservatives, led by Representative Dana Rohrabacher, Republican of California, who opposed China on grounds ranging from economic issues to abortion to treatment of religious groups. Led by Representative Nancy Pelosi, a California Democrat, and Representative Frank Wolf, a Virginia Republican, the anti-MFN coalition could count on a few key allies, including a few members of the otherwise staunchly pro-free trade House Ways and Means Committee and Democratic House leaders Richard Gephardt of Missouri and David Bonior of Michigan.

But the pressure—and the money—from the other side was simply overwhelming. So enormous is the flow of cash from corporate America to congressional campaigns that it is difficult to point to specific cases of influence. One brief study by the Center for Responsive Politics on the eve of the June vote showed that companies lobbying on China had funneled more than $20 million in PAC money to members of the House and Senate in little over a year. "The money has so corrupted the process that I am convinced that unless you have campaign finance reform you will get nowhere," says Milliken's Jock Nash.

From the start, opponents of MFN realized that victory was nigh impossible. To win, they would have to first win a vote in the House of Representatives, against incalculable odds. Then, they would have to win a Senate vote, which would mean first winning a majority in that hostile environment and then securing 60 votes to halt a filibuster. And then they would have to rally two-thirds majorities in both the House and Senate to overcome a certain presidential veto. Yet the apparent futility of the opponents' efforts made it all the more astonishing that the U.S. business community so vigorously opposed them, as if Greenberg and company were afraid that even a close vote, rather than the one-sided tally that resulted, would annoy the Chinese too much.

The U.S. Chamber of Commerce, the granddaddy of business lobbies, devoted nearly six months of intensive work to the MFN campaign. The Chamber's Asia Task Force contacted more than 200 local and state chambers and a select list of 6,800 member companies (out of 215,000) to gear up support for MFN, providing educational and public relations materials, a slide show, a television debate via the weekly *It's Your Business*, and a helpful breakdown of exports to China produced by each of the 50 states. Closely coordinating their work with the Clinton administration—a calendar of Chamber MFN activities for May 1996 shows four sessions between Chamber staff and administration officials, including Secretary of Commerce Mickey Kantor, in just the first week of May alone—the Chamber developed a list of 103 House members who were uncommitted but who might be convinced to support renewed MFN.

The Chamber's China MFN Congressional Lobbying Team, comprising more than 40 activist companies with interests in China, was divided into three teams, mixing manufacturers and retailers. Matching regional presence to House members from particular parts of the country, the three teams began setting up meetings with undecided votes. Meanwhile, last spring the Chamber launched its grassroots program, called GAIN (Grassroots Action Information Network), which sought to mobilize thousands of smaller companies to contact members of Congress. (For instance, a GAIN Action Call that went out to California companies on June 19, a week before the vote, said, "Call your Representative immediately. Tell him/her to support renewal of China MFN trade status. . . . There is no time to write.")

According to Workman, who oversaw the Chamber's efforts, once a meeting was set with a member of Congress, between three and fifteen company representatives would attend to make the pitch. "The 103 House members we targeted were up in the air not three weeks before the vote," says Workman. "We got 101 of them to vote with us."

Over at the National Association of Manufacturers, a similar process was underway, though even more than the Chamber of Commerce, NAM emphasized grassroots work and contacts with members of Congress back in their districts. "We tried to do our homework in a different way, with a lot of lobbying out in the districts," says NAM's Dianne Sullivan. The ten regional offices of NAM's Congressional Dialogue concentrated on getting local company officials and plant managers to bring the message to the congressmen. Like the Chamber, NAM emphasized U.S. exports—and the jobs sustained by those exports. But NAM created a highly detailed, company-by-company spreadsheet for each state, citing specific firms, the number of jobs dependent on exports to China, the companies' "impact on Chinese workers," and other data.

Among larger firms, NAM highlights the work of Boeing (which chaired NAM's China working group), Caterpillar (whose chairman leads the Business Roundtable), TRW, and United Technologies. The four companies led an unusual grassroots effort, sometimes called the "China Normalization Initiative," that was organized on a state-by-state basis in California, Illinois, Michigan, Texas and other key states. Boeing was clearly the quarterback in this effort, having organized many of its 20,000 suppliers across the country into mini-lobbyists for China's MFN status. Each state had a "captain," a business activist from a major firm. In Michigan, General Motors and AlliedSignal, Inc., were co-captains, while in Illinois the captain was Peoria-based Caterpillar.

Cal Cohen, coordinator of the umbrella group Business Coalition for U.S.-China Trade, called the Boeing-led effort "sort of the grassroots for the business coalition." And, wearing his hat as head of the Emergency Committee for American Trade, Cohen coordinated meetings with members of Congress for the several dozen high-powered CEOs (or their representatives) who comprise the committee, often in Washington but sometimes back in the members' districts.

Meanwhile, perhaps taking Sasser's advice to heart, the U.S.-China Business Council organized a series of events it called "China on the Hill." One state at a time, the council would bring company officials in a group to Washington to meet with an entire state delegation in the House; often, according to Rich Brecher of the council, for a particular

state as many as half the members of Congress, rather than mere staffers, would attend. "The biggest argument we had on our side was the export argument," says Brecher, repeating the familiar refrain. "Any action that would undermine MFN would endanger exports and jobs." The council also paid particular attention to the scores of House freshmen, whose views on trade with China were generally up for grabs; in the end, 55 of 74 GOP freshmen voted for MFN.

Realizing that the longer the delay in voting on the issue, the more chance that the opponents of MFN had to organize their own grassroots sentiment against China, the business groups worked with Speaker Newt Gingrich and the Republican leadership in the House to accelerate the timetable for a vote. Driving them was the awareness that China, with its loose-cannon proclivities, might also stumble into some new controversy that would fuel anti-Beijing sentiment in Washington. In early June, opponents of MFN were operating on the assumption that the vote would come in mid- to late July; in fact, it occurred on June 27 with less than one day's notice. Says Jock Nash, the Milliken counsel, "We didn't have the time, the money or the resources. There is no way on God's earth that you can mount a grassroots effort to bring popular pressure on Washington that will overcome the pressure being put on them by the Fortune 500."

In Michigan, the Big Three automakers capped their lobbying of the delegation with a campaign fundraiser held just a couple of weeks before the vote, and such key Democratic House members as John Conyers, Dale Kildee, James Barcia, and Sander Levin joined most of the Michigan delegation in voting for MFN. In California, defense and aerospace firms pushed hard and won the votes of Representatives Julian Dixon, Howard Berman, and George Brown. In Illinois, it was Caterpillar; in the Northwest, Boeing and Nike; in the New York suburbs, IBM; and in the grain states, Cargill and Continental. New York's staunchly liberal representative Charles Rangel, a Harlem Democrat and friend of labor, abandoned the AFL-CIO on the MFN vote; as the ranking Democrat on Ways and Means, Rangel was busily cultivating friends on Wall Street and raising campaign cash for fellow Democrats. "On trade issues, Rangel is very much a free trader," says the Chamber's Workman, satisfied.

Making It Normal

The 1996 MFN vote may be the last. Early in 1997, legislation is expected to be introduced in both the House and Senate that would guarantee permanent MFN status for China. Strongly supported by the business community, this effort would eliminate the annual clashes over China trade; critics fear that it will wipe out any chance that Congress will have to address issues concerning China at all. Yet both sides agree that Congress is tired of being involved in a nasty and unproductive MFN battle each year and might look forward to eliminating the issue once and for all. A parallel campaign would soften the impact of MFN by changing its name to something innocuous, perhaps "normal trade relations." That would make it more difficult for opponents of MFN to tar supporters with the notion that they are calling China "most favored."

Before this can happen, however, the Clinton administration and Congress must deal with the thorny issue of China's entry into the World Trade Organization (WTO). So far, two years of talks between China and the United States have gone nowhere, with Washington claiming that Beijing is refusing to make even the barest concessions in order to join WTO and abide by its rules. In public, the business community is backing the administration's view that China must make important concessions, but AFL-CIO officials are skeptical. "When push comes to shove, industry will cave on all the important issues," said one. Brecher of the U.S-China Business Council hints in this direction when he says, "I don't expect we're gonna get every 't' crossed and 'i' dotted. We've got to focus on a few priorities. If we try to hold China to an absolute agreement, we'll get nothing." Likewise, referring to China's insistence on entering WTO as a "developing country," which would soften some of the standards it would have to meet, the Chamber of Commerce's Workman says, "We think that China is in many ways a developing country."

Business is divided on exactly what should be the bottom line on China's WTO entry, and groups like the U.S.-China Business Council are surveying their members to see what they think. But if the MFN battle is emblematic, it doesn't really matter which view industry decides to adopt: They'll have the attention of both Congress and the President anyway.❑

When Preferences Disappear

By Peter Schrag

By now, there can no longer be much doubt that the days of formal race preference programs, at least in the public sector, are numbered. On November 5, California voters did what everyone had long expected, approving Proposition 209, the California Civil Rights Initiative, which prohibits any consideration of race or gender in California public education, employment, and contracting. The vote was narrower than had once been expected (and might have been narrower still had CCRI opponents not used an inflammatory and offensive television commercial, complete with a burning KKK cross, in the last weeks of the campaign). But, with a margin of 54 percent to 46 percent, it was decisive enough.

CCRI is only the most recent assault on affirmative action measures. And while Proposition 209 still faces legal challenges in federal court that may take years to resolve fully, the drift is clear. In the summer of 1995, the regents of the University of California, under heavy pressure from a governor with overweening presidential ambitions, voted to end race and gender preferences in all UC admissions and employment. In March 1996, in *Hopwood v. Texas*, a three-judge panel of the U.S. Fifth Circuit Court of Appeals struck down practices giving preferences to blacks and Latinos in admissions to the University of Texas Law School. In issuing its decision, the Fifth Circuit Court perpetrated an unprecedented act of judicial chutzpah, dismissing the Supreme Court's 1978 *Bakke* decision, which had allowed consideration of race as one "plus factor" in university admissions, as if it had never really existed. Justice Lewis Powell, the Fifth Circuit panel held, had been alone in articulating the *Bakke*

standard in the Court's divided decision; subsequent high court decisions had conspicuously ignored it; and "it is not binding precedent on this issue." In response to the Fifth Circuit decision, Colorado abandoned its race-based scholarship program, and a number of other state university systems began reexamining their use of race preferences in admissions.

In the meantime, in a series of increasingly emphatic decisions, the U.S. Supreme Court has cast growing doubt on its willingness to uphold any race-based policy other than those narrowly tailored to remedy a specific instance of prior discrimination. It has severely restricted racial set-asides in federal contracting (*Adarand v. Pena*) and racial gerrymandering in drawing congressional and legislative districts (*Shaw v. Hunt*). The high court also declined to review a Fourth Circuit decision (*Kirwin v. Podberesky*) striking down a University of Maryland scholarship program for African Americans as a denial of equal protection, and it deferred review of the *Hopwood* decision, even though it left federal law confused and inconsistent in a highly volatile arena—and even though the Fifth Circuit decision was a direct challenge to the high court's own *Bakke* precedent. If one of its conservatives retires and is replaced by a Clinton appointee, the Court may respond to these challenges. But for the moment, it appears likely that the Court declined review because the liberal-to-moderate justices—Breyer, Ginsburg, Souter, Stevens—on this closely divided court are not confident they have the fifth vote necessary to overturn lower court rejections of affirmative action.

> Race preferences aside, did the old criteria really make sense in the first place?

It's easy enough to dismiss any one of these developments as limited—by geography or subject or political scope or by the cynicism of the political act (and cynical was what California Governor Pete Wilson's exploitation of affirmative action certainly was). In his call to "mend it but don't end it," President Clinton vowed to protect the principle of affirmative action, and even Republican governors like George Pataki in New York, Christine Todd Whitman in New Jersey, and George Bush, Jr., in Texas, along with Jack Kemp in the years before the 1996 election, defended affirmative action programs. Still the trend is clear enough, whether one looks at the courts, which once helped advance affirmative action, at the opinion polls, or at the demographic complexities in states like California, where the growing number of minorities of all shades make it increasingly difficult to favor one group without explicitly discriminating against another.

It's also revealing that despite the surprising failure of people like Pete Wilson and Newt Gingrich to make race preferences a hot-button political issue, which is certainly what they had been hoping to do last year, there was no significant counterforce defending race-based preferences, either among the nation's leaders or the public at large. The opponents of Proposition 209 in California, fearing a low turnout of minority voters despite the upsurge of newly naturalized Latino citizens, tried to base their campaign not on the measure's impact on minorities but on what they warned would be the damage it would do to women. But that strategy, too, fell flat: On November 5, women split almost evenly on the issue, while men supported it overwhelmingly.

RACE AND MERIT

And yet, if the winding down of race-based affirmative action represents one declaration of social priorities—even, perhaps, the end of an era of public policy—it runs counter to another developing set of priorities, particularly in higher education, and raises a host of new questions about what, other than test scores and grades, should replace race and ethnicity in choosing candidates for admission to selective public institutions. Even as state policymakers and voters appear to be asking higher education to become more meritocratic in its admissions and hiring and as the courts increasingly insist on strict scrutiny of race-based policies in all public-sector activities, the trend in much of higher education seems to be toward broader, less objective—and sometimes more squishy—standards.

The most obvious examples of this trend are the attacks, often backed by the Department of Education's Office of Civil Rights, on objective

testing—and in particular the attacks on the SAT and PSAT (which is used as one of the primary screens for National Merit Scholars)—as biased against women and minorities. In its effort to deflect the attacks and to raise the scores of women, the College Board, which designs and runs these testing programs, has already revised the PSAT by doubling the weight given to the verbal sections on the test (thereby reducing the weight of the math portion, on which men have consistently done better), and, in an agreement with OCR, will now revise it further to include items designed to test the writing skills of applicants, on which women generally do better. (College Board officials say they were going to institute the writing items anyway, but they don't deny that the timing of the announcement was advanced by federal pressure.) These revisions of standardized testing may, in themselves, be welcome reforms, but coming, as they do, in response to government pressure to make the scores of women match those of men, it suggests that the battle over affirmative action is far from over. It is merely being carried on under other names on other fronts. In the meantime, a growing number of institutions, including the whole Maryland system, are de-emphasizing the use of the SAT in admissions, or vowing to abandon it altogether.

From Race to Class?

The alternatives most favored by politicians and other critics of race-based affirmative action are "outreach" and class-based preferences for those who have suffered economic disadvantage. Many institutions have been employing this approach for years, either by using straight income or welfare criteria or through programs that give preferences to children from families where no one had ever gone to college. Class-based affirmative action is part of the new regents formula in California—which, in a strange bow to current fads of victimology, also calls for extra consideration for those who have lived in "an abusive or otherwise dysfunctional home." (The most thorough treatment of the idea of class-based affirmative action is probably Richard D. Kahlenberg's recent book, *The Remedy: Class, Race, and Affirmative Action.*)

The problem is that in places like California, replacing race with class doesn't do much to maintain, much less increase, the percentage of blacks and Latinos on campus. It will merely bring in more poor Asians—Chinese, Vietnamese, Koreans—to replace the middle-class blacks and Hispanics who will be lost (most of them to private institutions) when race preferences end this year. There has been a florid array of proposals for programs that are not explicitly aimed at blacks and Latinos but that would effectively give them preferential treatment anyway. For example, the University of California at San Diego is considering a plan that would give extra credit to graduates of the state's worst high schools. But admission to the nation's handful of highly selective public institutions—the University of Texas Law School, for example, or Berkeley's Boalt Law School, or any undergraduate program at Berkeley or UCLA—is so competitive that, as long as other criteria are not changed, no device other than overt race preferences can achieve the ethnic diversity that the institutions would like. In this process there is, as Dennis Galligani, UC's assistant vice president for admissions, put it, "no surrogate for ethnicity."

For different reasons, the same is even more true in civil service employment and public-sector contracting. By definition, most of the people who apply for jobs as truck drivers, firefighters, and meter readers are already working class. More to the point, there is not much justification for class preferences in contracting or in hiring for civil service jobs: The only real rationale for establishing an ethnically diverse public-sector workforce is to increase its effectiveness and legitimacy. Sending a poor white boy to patrol Watts or Harlem is not the same as sending a black. A contractor working a street job in a big city with only white heavy-equipment operators will not enhance the social morale of the minority community even if every backhoe and tractor is driven by a poor boy. Having only white judges in courtrooms dealing mainly with minority criminal defendants is, as we have so painfully learned, no way to persuade the community that the legal system is fair, even if some of the whites come from the wrong side of the tracks.

The bigger question that follows—as much in hiring for the police department or the road crew as in choosing candidates for college or graduate school—is whether, race preferences aside, the old criteria really made sense in the first place. What, beyond minimal competence to meet the technical requirements of the task,

should be required? Some positions, it is true, clearly require more formally meritocratic standards than others; but for most positions, this question is a valid one. In some respects, race preferences have always been an inadequate way of compensating for the larger shortcomings that large public systems use in selecting applicants: How well does the Law School Admissions Test or the Medical College Admissions Test predict who will be a good lawyer or a good doctor? Unlike Amherst or Princeton, where admissions officers professedly pore over applicants' folders bulging with their letters of recommendation, autobiographical essays, and descriptions of extracurricular activities (from the chess club to the volunteer summer with African refugees), admissions offices at places like the University of Texas Law School or the University of California proceed almost entirely by numbers. In the 1970s, when it became plain that grade point averages and SAT scores left the entering classes at Berkeley and UCLA embarrassingly white and Asian in a surrounding society that was increasingly Latino, the system (to oversimplify this history only slightly) simply added another set of numbers to raise the percentage of what it calls URMs (underrepresented minorities). Anything that's not quantifiable is more or less ignored. (UC does ask for essays from applicants but rarely reads them.) Which is to say that, with some glaring exceptions (friends of politicians, children of big donors) the admission system at most large public universities has always been more like a civil service system than like the admission procedures (themselves highly imperfect) that the more selective private colleges ostensibly use.

> The gradual rollback of race preferences provides opportunities to create more relevant standards that are long overdue.

Toward Relevant Standards

The question now is whether these numbers-based admission systems will be rationally reexamined, or whether most of the gatekeepers will simply look for new labels to put on the old dodges and keep the number system more or less intact. In the higher reaches of academic and professional selectivity, the selection criteria may be relatively self-evident, but at the lower levels, they're not easy to agree upon, especially in view of the great American ambivalence between merit and inclusion.

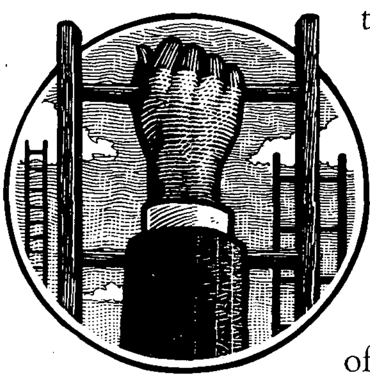
What should be easy to agree upon is that there is room for reform in admissions practices in most of higher education: Placing more emphasis on demonstrated performance instead of seat time, credits earned, grade point average, and test scores would be a good place to start. There is even more room in public contracting, where old-boy networks still dominate, and in blue-collar civil service, where high scores on a paper-and-pencil test may be of far less relevance than good judgment, honesty, and a host of other intangibles. That those qualities are hard to measure hardly justifies abandoning them as selection criteria. Making selection and promotion criteria really relevant to the job might do more to open jobs for minorities and women in civil service—and indeed has already done so in the many instances where artificial criteria have been scrapped (such as in the cases of irrelevant height and weight thresholds for candidates for firefighters' jobs; unnecessary paper-and-pencil tests for laborers in public utility jobs; and artificial barriers to women in a variety of combat and combat-support roles in the military). Striking down more of these barriers and better aligning entrance criteria with the jobs they select for are likely to do more for diversity than all the overt race and gender preferences in the world. One of the reasons that race-based preferences are so vehemently defended is that few minorities believe that genuine equal opportunity, the other half of the race-blind promise, will ever really be provided.

Still, the gradual rollback of race preferences provides opportunities to create more relevant standards that are long overdue. Those opportunities go beyond the long litany of arguments about fairness and racism that have been made in the course of the debate over affirmative action. What it surely will not do is end the fight between the meritocrats and the inclusivists; in America that fight is almost as old as the Republic, and it will continue.❑

ARE BLACK DIPLOMAS WORTH LESS?

BY MARTIN CARNOY AND RICHARD ROTHSTEIN

The passage of Proposition 209, the California Civil Rights Initiative (CCRI), has signaled to many the beginning of the end for affirmative action [see Peter Schrag's "When Preferences Disappear," page 38]. Evidence from California shows, however, that while the gap between white and minority educational achievement has narrowed, the gap between white and minority wages has continued to increase. This evidence strongly suggests that, contrary to the claims of many CCRI supporters, California's labor markets have not outgrown the need for interventions to correct bias, intentional or otherwise.



Even conservative economists acknowledge that affirmative action was responsible in the late 1960s and 1970s for raising blacks' wages and bringing them more in line with the qualifications of black workers. But whether minority (especially black) wages are still less than what their qualifications warrant is a more difficult question than it appears. Educational attainment (measured by years of schooling completed) and achievement (measured by test scores) remain higher among whites than among minority workers. White workers are also paid more. The key question is whether differences in qualifications fully justify the wage gaps. If educational admissions and labor markets now work "perfectly" and reward Californians by merit, as some opponents of affirmative action claim, there might be widespread agreement that affirmative action should have no place. And if unequal qualifications entirely explain wage inequality, it might make more sense to emphasize improving minority job applicants' educational qualifications. But if, on the other hand, improved education

among minority youths does not narrow the wage gap, affirmative action or some other market interventions may be reasonable.

The trend data are dramatic and troubling. In the last two decades, the educational qualifications gap between white and minority workers has narrowed sharply, as black and Latino attainment and achievement have improved relative to that of whites. But just as dramatically the wage gap has grown. The overall wage gap has not widened from what social scientists refer to as a "fallacy of composition"—that is, minorities have not disproportionately increased their attainment at levels (like high school diplomas) where relative wages have fallen. The wage gap has widened even for workers with the same education levels: California's minority high school graduates now earn less, compared to white high school graduates, than they used to. The same is true of minority workers who have attended some college and minority workers who are college graduates.

The mere existence of a widening wage gap, even in the face of a shrinking educational gap, does not by itself prove discrimination. Measurable education is not the only relevant qualification workers bring to employment. Some affirmative action opponents insist, for example, that even if attainment and achievement qualifications are relatively more equal, minority job applicants have inferior discipline and work habits and that this difference justifies rational distinctions in wage outcomes. Others claim that a spatial mismatch between minority applicants and the location of available jobs creates a relative oversupply of applicants for jobs minorities can reach, leading to average wages that are lower for minority workers than for white workers of similar qualifications. Still others claim that blacks and Latinos seek jobs in occupations or sectors (say, government rather than entrepreneurship) with lower average earnings.

There are good reasons to believe, however, that these explanations are incomplete. For example, while blacks may be overrepresented in California's government executive positions where wages are lower than in comparable private jobs, blacks are also overrepresented in government blue-collar jobs that pay more than comparable private employment. Similarly, the spatial mismatch hypothesis has more power to explain widening wage gaps for high school-educated workers than for college-educated workers, who are more mobile and not trapped in urban ghettos. None of this shows that affirmative action is the best solution. Other policies such as "empowerment zones" or further minimum-wage increases may be better. But the data support a strong case for some intervention.

THE EDUCATIONAL ATTAINMENT OF YOUNG CALIFORNIANS

Blacks have been closing the educational attainment gap at almost every level (the only exception being that while black females have increased their college graduation rate, white females have increased their college graduation rate even more). Between 1980 and 1995, while the high school graduation rate for California's male white workers, aged 25 to 34, increased from 94 percent to 96 percent, the graduation rate of black male workers increased from 90 percent to 95 percent. Between 1980 and 1995, the share of young white workers who had attended some college (including community colleges or technical institutes) rose only slightly, from 68 percent to 70 percent; the share of black workers with some college education increased from 57 percent to 63 percent. And while the college graduation rate of young white males in the workforce barely changed, going from 34 percent in 1980 to 35 percent in 1995, the college graduation rate for comparable blacks increased from 18 percent to 20 percent, though that still left a large absolute difference.

The educational attainment gap between black and white females also narrowed at the "high school completed" and "some college" levels. Indeed, by 1995, the high school graduation rate of employed black females (99 percent) was higher than for comparable whites. Likewise, more young female black than white workers had attended college (74 percent versus 73 percent), reversing their 1980 disadvantage (56 percent versus 62 percent).

Interpreting similar data for Latinos is difficult because many data sources do not distinguish native-born from immigrant Latinos. We do, however, have census data for native-born Latino workers in 1980 and 1990 showing that for males, the attainment gap has stayed about the same. For young Latina workers, high school graduation rates jumped from 82 percent in 1980 to 85 percent in 1990, while white female rates were unchanged.

The share of young Latina workers who had attended some college jumped dramatically, from 39 percent in 1980 to 55 percent in 1990; the share of white female workers with some college also jumped, but less (from 62 percent to 75 percent), so the gap narrowed here as well. The share of young Latina workers with college degrees increased from 11 percent in 1980 to 13 percent in 1990. Although this increase occurred at a faster rate than for white females (whose college graduation rate went from 29 percent to 33 percent), the college graduate gap between white female and Latina workers remained relatively stable.

> In the last two decades, the educational qualifications gap between white and minority workers has narrowed sharply . . .

Because educational attainment is an important consideration in employers' wage decisions for young workers, we would expect that young white males, on average, would earn more than young black males in 1995—but not as much more as they did in 1980. We would also expect, based on this educational attainment data, that the wages of young black female workers would be approaching the wages of young white females; that the gap between young white female and Latina workers would have significantly narrowed; and that the wage gap between Latino and white males would remain basically unchanged. In fact, however, wage disparities between whites and minorities (both Latino and black) have grown at all levels of educational attainment.

The Educational Achievement of Young Californians

Perhaps the problem is the quality of schooling. Even though young minority workers today have attended more school than in the past, they may not be able to hold jobs because their academic achievement did not improve commensurate with their level of schooling. The evidence from test scores shows, however, that an overall narrowing of the attainment gap has been matched by a corresponding narrowing of the achievement gap.

Scholastic Aptitude Test (SAT) scores can be misinterpreted if used to describe the overall quality of schooling because SAT test takers are self-selected. Declining average SAT scores may simply mean that a larger and less elite group of students chose to take the test. But SAT trends can suggest how the academic preparation of those who went to college compares from year to year. If a growing proportion of a group such as black 17-year-olds take the SAT test, the average black score might be expected to decline because the average would reflect a larger (and thus less elite) group of black students. If the average score rose despite an expansion of the pool, the increase would be all the more impressive.

Between 1976 (the year SAT scores were first reported by race and ethnicity) and 1987 (the most recent year in which the 25-year-old college graduates whose wages we report would have taken the SAT for college admission), the average verbal score was stable (456 to 453), as was the average math score (494 to 499), for California's white students. For California's black students, however, average verbal scores went from 331 to 359, while average math scores went from 354 to 388. The number of black test takers rose from 5,800 in 1976 to 7,100 in 1987, while the number of all black 17-year-olds in California remained roughly the same. Thus, the increase in average scores for black test takers almost certainly represented genuine improvement. Similarly, average total SAT scores for Mexican-American students rose from 772 to 793 during a time when significant expansion of the Latino test-taking pool also made an increase in average scores much more difficult to achieve.

Most minority students who did not go on to a four-year college did not take the SAT test. They did, however, take the National Assessment of Educational Progress (NAEP), which is given to a representative sample of all 17-year-olds. NAEP scores represent a range of reading abilities. For example, 200 reflects an ability to make inferences based on uncomplicated passages; 250 reflects an ability to reach generalizations from literature, science, and social studies passages; 300 reflects an ability to summarize and explain relatively complicated information.

Nationally, average NAEP reading scores of white 17-year-olds went from 291 in 1971 to 295 in 1988. For blacks, the gain was greater, from 239 in 1971 to 274 in 1988. For Latinos, the gain was

from an average of 252 in 1975 to 271 in 1988. Thus, while average white scores remained higher in 1988, the average scores of all three groups in 1988 reflected the ability to make inferences and reach generalizations from passages dealing with literature, science, and social studies.

In math, white NAEP scores were unchanged nationally, but black and Latino scores increased substantially. In 1978, the average black mathematics score was 37 percentile points lower than the average white score. By 1990, the gap had been reduced to 21 points. On the verbal test, the gap was reduced from 41 percentile points to 24. All told, the gap between white and black NAEP scores was reduced by about 40 percent from the 1970s to 1990. The white-Latino gap was reduced from 31 percentile points to 27 points on the math test, and from about 32 percentile points to about 17 points on the verbal test.

> . . . but just as dramatically, the wage gap has grown. Wage disparities between whites and minorities have grown at all levels of educational attainment.

Separate NAEP data are not available for race and ethnic score trends in California, but we do know that western regional trends were similar to the nation's. It is likely, therefore, that there was relative improvement in achievement for California's minority 17-year-olds who did not go to college.

The Relative Wages Of Young Californians

Once the education gap between minority and white workers narrows, the wage gap should also narrow. But the gap in wages between young white male workers and young black male workers has actually widened. In California, young black male wages fell from 84 percent of young white male wages in 1980 to 77 percent in 1995. Black females earned about as much as white females in 1980 but only 86 percent as much in 1995.

Because minority test scores have improved relative to whites among high-school educated workers and those with "some college," the wage gaps within these groups should have narrowed. But in each case minority wages fell in California as a share of white wages. For black males with high school education only, wages fell from 82 percent of wages of similarly educated white workers, to 79 percent. For those with "some college," the drop was from 88 percent to 83 percent. And for college graduates, the drop was from 94 percent to 86 percent.

For black females, relative wages also dropped. Whereas in 1979, young working black females earned 6 percent more than young white females with similar educational attainment, by 1989 their relative wages had fallen to 4 percent below the white level. Young black females with "some college" earned 4 percent more in 1979 but 6 percent less in 1989; and those with four-year college degrees earned 6 percent more than comparable whites in 1979, but 8 percent less in 1989. Young Latino workers also lost ground to white workers at each of the comparable education levels, from 1979 to 1989.

Sample data from the Current Population Survey, although not strictly comparable to census data, extends the picture closer to the present. It shows that while the wage gap did stabilize for some education groups between 1990 and 1995, it continued to widen for others. Nowhere did it narrow, despite continued narrowing of the educational attainment and achievement gaps. For example, California's young black males with only high school education saw relative wages fall from 84 percent of comparably educated young whites' wages in 1990 to 74 percent in 1995. Relative wages also fell for black females with "some college" and for Latina females at all levels of educational attainment.

While no single statistic proves the case, the broad trends are remarkably consistent: Educational attainment and achievement of minority 17-year-olds, relative to comparable whites, improved steadily—and in some cases dramatically—from the mid-1970s to the late 1980s, yet wages did not. There may be other—or better—solutions than affirmative action, but affirmative action is one way to push wages in the direction of being more consistently and rationally related to workers' qualifications. Unfortunately, the vote in California was not designed to substitute a better remedy, but no remedy at all.❑

Welfare As We Might Know It

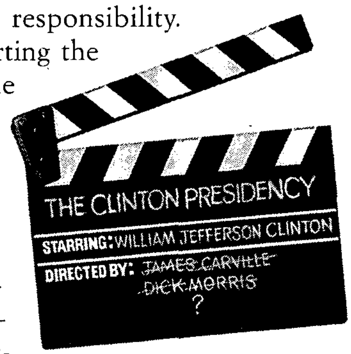
BY MARY JO BANE

In August 1996, President Clinton signed welfare reform legislation that signaled the end of an era in the country's response to needy families. No longer will cash assistance to dependent children be guaranteed by the federal government. Instead it will be provided, or not, by states using block grants.

In signing the legislation, the President identified a number of "flaws" that he promised to fix after the election. Other Democrats, some of whom voted for the bill, took up the President's refrain. Their statements implied that there was little to worry about in the legislation, since any problems with it could be solved in the 105th Congress.

This implication is wrong—and not just because Congress remains Republican. The fundamental flaws in the law are not in the food stamp or immigrant provisions that the President has singled out for criticism, but in the abdication of federal responsibility for the poor. Even if cuts in food stamps and immigrant benefits could be restored, which would be difficult in the current budget context, the structural change in welfare is irreversible in the foreseeable future.

The country—or at least the Congress—decided that the old welfare system needed to be scrapped. The public, rightly, wanted welfare reform that expected work and parental responsibility. The political rhetoric supporting the new law, unfortunately, made the concept of a federal entitlement synonymous with irresponsibility and lifelong dependency, and the replacement of the entitlement with block grants synonymous with work requirements. This rhetoric was misleading but powerfully effective. It will be many years before public officials can talk again about a guarantee of assistance, or even a guarantee of work or protection for children.



I believe the new welfare law poses serious dangers to poor children and families. As assistant secretary for children and families in the Department of Health and Human Services, I supported the administration's efforts to refocus the welfare system on work and to increase state flexibility through the waiver process. But in the course of reviewing state welfare reform proposals, I became concerned that politics and financial pressures were pushing states into a "race to the bottom." As long as the old law was in place the federal government could insist on guaranteed assistance and protections for recipients. My fears about what would happen to poor children when states were no longer required to provide the modest assurances and protections we insisted on in waiver demonstrations led me to resign after President Clinton signed the welfare bill.

I believe the dangers in the law will be impossi-

ble to alleviate with the incremental changes that are politically feasible. The deed is done. This round of debate about poverty and welfare has ended with the issue being left to the states. But it is hard to imagine that the national interest in the well-being of children can be so easily put aside. So it is now time to look toward the longer term, and to begin laying the groundwork for approaches that could build a new national safety net for poor children above the wreckage of the old one.

Immigrants and Food Stamps

The new welfare law—the Personal Responsibility and Work Opportunity Reconciliation Act of 1996—has nine titles. One of them, Title III on child support enforcement, makes unambiguous improvements in the national child support enforcement system and as a free-standing bill would probably have received near unanimous support. Another, Title VI on child care, authorizes more federal money for child care, and takes some steps toward a more integrated child care system by rationalizing, somewhat, a number of federal child care funding streams. Titles V, VII, and IX make small and relatively harmless changes in child protection, child nutrition, and other programs.

Title II has received little attention but may have significant effects. It redefines benefit eligibility rules for disabled children under the supplemental security income program. The impetus for the changes came from allegations of abuse in the program by families of children with emotional, behavioral, and learning problems. Though these abuses were not found to be widespread in studies by the Health and Human Services inspector general and other watchdog groups, changes in the program to require medical determinations of physical or mental impairments (rather than simply functional assessments) received wide bipartisan support. This will lead to denials of benefits to many families.

Title IV, dealing with immigrants, and Title VIII, dealing with food stamps, were singled out by the President as the most seriously flawed. Title IV bans most legal immigrants from most federal benefit programs. Title VIII makes across-the-board cuts in food stamp benefits. It also includes one of the meanest legislative provisions of recent history, restricting food stamp benefits to unemployed adults without disabilities or dependents to 3 months out of 36. These two titles generate most of

the $54 billion savings in the law. They are in theory fixable—the money just needs to be put back in. But in practice this will not be easy, given the general commitment to balancing the budget and the lack of political support for immigrants and nonworking childless adults.

Even if the immigrant and food stamp provisions in the law were softened, however, the bill would still pose serious dangers. The dangers come from Title I, which replaces the Aid to Families with Dependent Children (AFDC) program with block grants to the states for Temporary Assistance to Needy Families (TANF). This is the welfare reform title of the bill, the title that is touted as reforming welfare by replacing it with work.

From AFDC to TANF

The new law abolishes the AFDC program, which guaranteed cash assistance at levels set by states to needy children whose parents were unable to provide for them, and guaranteed federal matching money to the states in amounts sufficient to provide the stipulated benefits. The old law was nothing to be proud of; it badly needed reforms to require and provide opportunities for work and parental responsibility and to hasten families off the rolls rather than lock them into dependency. But the new law goes much further than these sensible reforms. It abdicates federal responsibility for needy children by abolishing any entitlement to benefits or services and providing very flexible block grants to the states, while mandating tough work requirements and a five-year lifetime limit on the receipt of assistance.

The real dangers from the TANF part of the law come both from the work and time-limit requirements—which states will have many opportunities either to use constructively or to avoid—and from the enormous flexibility the states have to spend money, set eligibility requirements, and provide assistance, or not, as they wish.

Some states will use their block grants for creative and innovative approaches to providing work opportunities for adults and appropriate services for children, at least in the short run. Some states will respond to the work requirements and five-year time limits in the new law by helping parents move quickly into work or community service, supporting them in their jobs, and making sure their children are safe and adequately supervised.

But the new law provides broad flexibility in the use of funds, including the power to carry over funds from year to year and to transfer funds to other programs, and the power to devolve responsibility to lower levels of government and even to for-profit companies—all of this with almost no federal oversight. Federal matching of state funds is replaced by a relatively loose requirement that the states maintain their spending at 80 percent of their 1994 level; this means that states can and probably will reduce state funds spent on welfare. All the political and financial incentives are for states to cut assistance, to impose time limits shorter than five years, to meet the work requirements without spending any money, to shift responsibilities to local governments and private contractors, and to use the block grant funds for more politically popular programs. All of these tendencies were evident in waiver demonstrations proposed by states before enactment of the new law.

Politics at the state level are not likely to support spending on the very poor, given the freedom and incentives to use the funds more broadly. Competition among the states, I predict, will continue over who can be tougher on welfare. The for-profit firms bidding to run welfare systems will be driven by cost considerations. There will be little incentive for states to put money into job development, job training, or worker support. Freed from the constraints of the federal law and the waiver process, it would be surprising if state legislatures did not enact further restrictions on cash benefits. And Congress is unlikely to overrule state decisions.

> All the political and financial incentives are for the states to cut assistance.

Also, disparities among states will be exacerbated by the funding formula, which locks in historical differences in per capita (more precisely, in per poor child) spending. Since some of the more advantaged states are also those with stable or falling populations, and vice versa, these disparities could well increase over time.

The danger, of course, is that the flexibility and incentives at the state level will result in harm to vulnerable families and children, at least in some states. Unemployment rates differ; in many jurisdictions, there will be a lack of employment as well as a lack of training and support for low-wage

workers. The absence of cash assistance, whether because of lower benefits, time limits, or sanctions tied to tough work requirements, may be most felt in housing, with increased eviction and moving, more doubling up and crowded conditions, and more violence-prone relationships. Children may also suffer from a lack of supervision and appropriate discipline from parents who are away from home for long hours without the ability to provide good substitute care. For some, abandonment or serious abuse or neglect will result. For more, the effects may show up in poor school performance and antisocial behavior.

What can be done to mitigate these outcomes? It is important to fix the immigrant and food stamp provisions in the bill by restoring the cuts and exempting more classes of immigrants from bans on benefits, as best as can be done within budget constraints. Fixing the TANF block grant will be much harder, given the political enthusiasm for abolishing the entitlement and giving flexibility to the states. Among the most important short-term fixes will be to strengthen requirements that state programs be publicly accountable and treat recipients with some semblance of due process. Over the longer term, we will need to construct a new national safety net, based on jobs for adults and a new approach to protecting children.

Dispatching Due Process

The welfare law's explicit elimination of an entitlement to benefits or services presumably has two purposes: to send a message that assistance is temporary and conditional on meeting work and other requirements; and to eliminate or sharply limit the ability of recipients to claim due process protections and to litigate denials or terminations of assistance. By repealing federal AFDC, Congress undermined 60 years of case law establishing due process protections for recipients. The new law leaves open the very real possibility that states will condition assistance not just on meeting requirements but on the availability of funds. Like housing assistance currently, cash and employment assistance could become subject to waiting lists or other forms of rationing. It also leaves open the possibility that recipients will have little recourse if they are denied assistance, even for arbitrary or discriminatory reasons.

The law does say that the state plan "shall set forth objective criteria for the delivery of benefits and the determination of eligibility and for fair and equitable treatment, including an explanation of how the State will provide opportunities for recipients who have been adversely affected to be heard in a State administrative or appeal process." This would seem to require that states lay out rules for getting assistance, that they apply them fairly, and that they provide some rights of review. It will no doubt provide the basis for legal appeals. However, because the new law is so explicit about the elimination of the entitlement, and so cryptic about requirements on the states, the set of protections and due process rights developed through litigation under the old law will almost certainly not be applied. Different judges in different districts and circuits will interpret equal protection and due process requirements differently, and a piecemeal system of rights and protections, or lack thereof, will gradually develop.

Efforts by Democrats to clarify and strengthen the equitable treatment language were unsuccessful during the congressional debate and were attacked as attempts to reinstitute an entitlement.. But it does seem reasonable to require states to make clear to potential recipients what benefits and services will be provided, under what precise conditions, and to whom. It also seems reasonable to require states to serve everyone they say they will serve, so that families and children in need are not disadvantaged by the vagaries of the appropriations or economic cycles of a state. Legislating these requirements would be an important short-run improvement, and would be both fairer and faster than relying on a litigation strategy. Even though no particular benefits or services would be guaranteed, at least potential recipients would know the rules and could count on receiving whatever assistance was authorized.

Another important short-term fix is to strengthen the reporting requirements in the law. State plans are currently required to contain only an "outline" of how the state "intends to . . . conduct a program that provides assistance to needy families with (or expecting) children and provides parents with job preparation, work and support services to enable them to leave the program and become self-sufficient." Federal block grant funds may be used "in any manner that is reasonably calculated to accomplish the purpose of this part," with the calculation made almost entirely by the state. States are not required

to explain in any detail how they are using the federal block grant or required state maintenance-of-effort funds: what benefits or services they're using the money for, under what conditions, for how many people, and at what levels of benefits or services; what money is being used for if it is carried over or transferred to other programs; and how much is being spent on things other than ongoing cash assistance or employment. Since federal oversight is almost eliminated by the law, state-level monitoring and advocacy will be the primary mechanisms for achieving and enforcing state commitments to needy families. The ability of the public to scrutinize the program could be greatly enhanced by strong state planning and reporting requirements.

It might be useful to go beyond reporting requirements and specify more clearly the uses to which block grant funds may be put, and the uses of funds that count toward the state's required maintenance of effort. The enormous flexibility in the use of funds and the entry of profit-making consultants and contractors into the business of developing and running welfare systems will almost certainly lead to exploitation of the loopholes in the law. There is certain to be shifting of costs from state to federal funds, and attempts to use block grant funds (or to free up other money) for state programs that are mandated—like Medicaid—or that are more politically popular than welfare.

> There is no politically feasible way of going back to the old structure.

Though some in Congress may try to close loopholes and direct the funds more tightly to certain forms of assistance, the attempt is unlikely to be successful. Governors—and their allies in Congress—will defend their ability to use funds as they see fit. An example of the difficulty of closing loopholes comes from the old law. States started to use open-ended federal emergency assistance funds, provided through the AFDC program, to finance their juvenile justice systems. HHS disallowed this use through administrative action. Under the new law, after agitation by a number of states with powerful representatives, states are explicitly permitted to use funds for any purpose that they were using them for before HHS action, such as juvenile justice.

Moreover, limiting the use of funds at this point would circumscribe what may be the best opportunity provided by the new legislation—for states to genuinely experiment with new approaches to serving families and children. Investing heavily in diversion, day care, subsidized employment, or other approaches that are only now being thought about may, in fact, be successful. A period of genuine experimentation, as long as there is full and complete reporting (and adequate funding), may well be the best foundation for building a new national commitment to needy families and children.

Welfare to Work?

A new national commitment is likely to be necessary. President Clinton and others have already recognized that genuinely reforming welfare requires jobs for those who must leave welfare. The President has proposed a combination of moral suasion of private employers, tax incentives, and modest grants to cities to fill this need.

Urban areas where "work has disappeared" will be hardest hit by the change in welfare. Not only do these areas often lack vital businesses that could provide jobs, they are also home to many people who lack the basic capacities, skills, and attitudes necessary to obtain and hold employment. What is known about the characteristics of current long-term welfare recipients, through work by Donna Pavetti of the Urban Institute and others, does not suggest an easy transition to self-sufficiency. Most are poorly educated with little or sporadic work experience. Many have cognitive and skills deficits. Many have histories of substance abuse or domestic violence. Many have great difficulties holding jobs, because of poor work habits, difficulties in dealing with authority, and problems in managing the routines of child care, transportation, and work life.

For these workers to become fully self-sufficient will take investment in a network of training and support services that help them not only get but also keep jobs through the inevitable difficulties at work and at home—and to get new jobs when they lose the first one. The problem is made more complicated and more crucial by the fact that focusing job development and support resources entirely on current or past welfare recipients—almost all of

whom are women—is likely to be self-defeating. Strong family and community life requires the participation of men as husbands, fathers, and workers.

Too small, too tightly targeted programs are likely to be ineffective in changing the environment of depressed urban areas to one in which work is available, desired, and kept. The modest program that the Clinton administration has proposed may provide opportunities to experiment with what does and does not succeed in these areas. It will be important to see it not as a solution in itself but as a program that might provide a basis for a fuller national commitment later.

What Happens to the Children?

Protecting children who are hurt by the welfare bill is equally important—and even more complicated. Analyses produced by the Department of Health and Human Services and by the Urban Institute before the bill was enacted predicted that upward of a million children would be pushed into poverty as a result of the bill, and that some eight million families with children would lose income. The poverty effects result mostly from the cuts in food stamps, supplemental security income, and immigrant benefits, since many families potentially affected by the cuts have incomes right on the edge of poverty.

More difficult to predict are the effects of work requirements, time limits, state flexibility, and the dramatic change in the nature of welfare itself produced by the elimination of the entitlement. No doubt some current long-term welfare recipients—and it is really impossible to predict how many—will respond to the combination of tough requirements, short time limits, and modest services by getting jobs and getting their lives together. But many will not. States that have gotten serious about work or more general participation requirements are cutting the benefits of many, many families who are sanctioned for noncooperation. States have also seen dramatic decreases in caseloads, not entirely driven by good economies, from people deterred by the new requirements and the new climate.

Sadly, there are almost no data to indicate what happens to these families and their children when they are no longer receiving welfare. It is possible to offer some guesses, however. Some of the families are no doubt fine, having found jobs, decent living situations, and adequate child care, so that their children are well cared for and safe. Others are likely to be in situations of great instability, both in their work and in their housing; some are likely to be in danger.

The debates around welfare reform recognized the potential harm to children. The shape and resolution of the debates illustrate the difficulty of resolving the dilemma. The earliest versions of the Republican welfare bill would have allowed states to use block grant money for orphanages, in stark recognition of the facts that some families would be denied assistance entirely and that not all parents would successfully meet the challenges of the new requirements. Democrats attacked this provision relentlessly. They observed that good group homes are very expensive and could never provide care for more than a small fraction of children affected by time limits or denials of benefits for other reasons. They also reminded the country that for many decades child protection laws have recognized that poverty and unemployment are not crimes for which the removal of children is appropriate punishment. In response to the fierce attacks, the word "orphanage" was quickly removed from later versions of the bill. The underlying problem, however, was never addressed.

The Democratic answer to the problem of protecting children was vouchers. In substitute bills and in amendments offered in committees and on the floor, Democrats proposed that states be required, or at least permitted, to provide vouchers to cover certain needs of children whose families lost benefits because of the inability to find work or the imposition of time limits. The proposal did not extend to the children of parents who refused to cooperate, turned down jobs, were fired for cause, or quit for cause—all likely to occur. Nonetheless, Republicans fought the voucher proposals vigorously and successfully, arguing that vouchers simply reinstituted the old entitlement to indefinite assistance under another name.

We need an amendment permitting states to use block grant funds for vouchers, and perhaps even requiring them to provide vouchers if they institute time limits on cash assistance shorter than five years. To really make mandatory vouchers work, however, would require specification of the circumstances in which they would be offered, and by extension of the circumstances

under which cash assistance itself is offered. Given the enthusiasm with which the last Congress abolished the entitlement and celebrated state flexibility, it seems unlikely that the present Congress will go this far toward a federally defined right to assistance. Moreover, even this proposal does not deal very adequately with the dangers to children whose parents cannot or will not make it in the new world of temporary assistance and requirements.

The old welfare system all too often gave up on long-term recipients but provided for their children with minimal but continuous cash assistance. The new welfare system will no longer do this. But the current child protection system, which investigates reported child abuse and neglect and supervises out-of-home placement for children who are found to be in danger, is not equipped to deal with the situations of children whose families lose benefits. The system is already overwhelmed by escalating numbers of abuse and neglect reports. And it has a limited set of tools for responding to the needs of children. Most states provide very few services to families and rely on foster care for protecting children in danger. Child protection systems are explicitly not authorized to provide ongoing housing or cash assistance, even if economic deprivation appears to be the cause of child neglect.

If neither the welfare system, now focused on employment, nor the child protection system can step in to help children hurt by welfare reform, then who will protect kids? States, communities, and private agencies will need to develop new approaches to child welfare, which may eventually need to be mandated and funded at the national level. The new approaches will have to combine services, required parental activities, and cash or in-kind assistance, and perhaps even structured living situations, as well as provide counseling and support. They will recognize that full-time unsubsidized employment is too ambitious a goal for some parents and will have to provide ongoing assistance, in many cases on a long-term basis. To avoid being perceived as an easy way out of the welfare system's work requirements, the new approaches will also have to provide supervision, require participation in activities, and perhaps limit the flexibility of assistance through vouchers or in-kind services. They will be more intensive and almost certainly more expensive than current cash assistance, but will—one hopes—be required for many fewer families.

A research and experiential base sufficient to design such a system on a national basis does not currently exist. But I predict we will need such a system. We should be ready in a few years to propose a system that provides more or less uniform protections across the nation. The first steps should be careful observation of state efforts and some demonstrations. I hope that states will start now, so that in a few years we have a firm basis for serious national legislation.

Moving Forward—Because There's No Moving Back

The 1996 welfare law does indeed "end welfare as we knew it." There is no politically feasible way of going back to the old structure, with its guarantees of assistance and federal regulation of state programs. A new national commitment to the poor will have to come through approaches that are very different from the old discredited system; this cannot be achieved by incrementally fixing the law.

For now, we should soften the immigrant and food stamp provisions of the law as much as possible. It is also crucial to fix the TANF part of the law. For one thing, we need a better understanding of what is happening so that information is available to local and national groups demonstrating the need for change. It would be desirable, if possible, to tighten and clarify the requirements for equitable treatment, and to provide for at least optional vouchers for needy children whose parents have been denied aid.

For the longer term, I believe we should be looking toward the time when the nation has gotten over its disgust with the old welfare system and is ready to consider once again its national responsibilities for children. For this new debate, which I believe is inevitable in a few years, we should focus on developing new approaches to job development and worker support, and to protecting children.

I would like nothing better than to be wrong about the dangers of the new era that the new welfare law has begun. But if I am right, there is an enormous amount of work to be done, and the time to start is now.❑

WELFARE AS VERMONT KNOWS IT

BY JASON GRAY ZENGERLE

Devolution proponents frequently cite Vermont as an example of what a state can do to improve its welfare system when it is given the leeway to experiment. Since receiving a federal waiver in 1994, Vermont has been running its innovative Welfare Restructuring Project (WRP) and has achieved a noteworthy degree of success. But Vermont's uniquely progressive approach to welfare reform seems antithetical to the spirit of the new federal welfare law. In fact, only its preexisting waiver, which lasts through 2001, will allow Vermont to escape the new law's most regressive requirements.

WRP is the nation's first statewide demonstration of time-limited welfare. Though it will be years before evidence accumulates to determine whether it leads to durable reductions in poverty rates, it certainly puts more money into the pockets of the poor and thus accomplishes the transition from welfare to work less harshly. In only two years, Vermont raised the number of welfare parents with jobs from 20 percent to 26 percent and increased their average monthly earnings from $373 to $437, while decreasing the average benefit level from $521 to $476. In those same two years, Vermont has reduced the number of families receiving public assistance from 10,006 to 8,680.

In many ways WRP resembles the strategy that some members of the Clinton administration originally favored; Vermont succeeds precisely because the state is willing to spend what is required—increasing its social services budget by 50 percent since starting WRP and maintaining an average monthly AFDC benefit $150 higher than the national average—to raise low-level incomes and, when necessary, create jobs where none exist. Vermont gives two-parent families 15 months of public aid before requiring the family's breadwinner to work, while single parents are eligible for 30 months of cash assistance before the state forces them to take a job. If a person is unable to find a job in the private sector, the state provides the individual with a ten-month full-time job in a public or nonprofit organization. Benefits then count as earned income, qualifying recipients for the earned income tax credit and allowing them to contribute to FICA so they can someday receive Social Security benefits.

In addition to subsidizing jobs, Vermont has instituted a number of effective make-work-pay incentives. In calculating a family's benefit level, the state disregards the first $150 of the family's monthly earnings plus 25 percent of the remainder. Vermont has eliminated the 100-hour rule (which once prevented families whose breadwinner worked more than a 100 hours a month from receiving full benefits), extended Medicaid for 36 months, provided income-based child care subsidies, and allowed former welfare recipients to exclude one vehicle and savings from assets. The state has also been generous in its definition of work, allowing time spent in a state-sponsored job training program to count toward the work requirement.

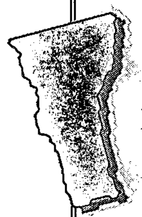
And if a person refuses to meet the state's work requirement? Vermont does not cut off benefits—it simply stops paying them directly to the recipient. Instead, the recipient must report to the social welfare office twice a month to show where the checks must be sent. "We don't believe in a loss of benefits, just a loss of freedom on benefits," explains Jane Kitchel, the commissioner of Vermont's

Department of Social Welfare. "Children shouldn't be paying the price for parental behavior."

Alas, such enlightened thinking might be unique to Vermont. "We're an outlier in terms of how we approach welfare reform and looking at families," Kitchel laments. "Philosophically, a lot of states aren't going to be making the same kind of policy decisions we are."

Vermont, after all, bears little resemblance to the rest of the nation. It has no large cities and, with neighboring New York and Massachusetts offering generous welfare benefits of their own, it hasn't attracted a general influx of poor people from the region. It wasn't until 1963 that the state's number of human inhabitants surpassed its bovine population, and even today it has fewer than 600,000 residents. Furthermore, many of those residents are remarkably liberal. While neighboring New Hampshire, a libertarian's playground with its low taxes and "live free or die" ethos, has attracted generally conservative, city-weary migrants from Boston, Vermont has drawn left-leaning cast-offs from New York, eager to live in the fruitopian state known for its dirt roads and Ben & Jerry's.

> Vermont's innovation has yielded noteworthy success, but it's unlikely other states will be willing—or able—to replicate it.



Vermont's congressional delegation consists of a liberal Democratic senator, a Republican senator who votes more with Democrats than with his own party, and a socialist congressman who gets euphemistically listed as "Independent." The state's progressive governor, Howard Dean, was just re-elected to his third term with more than 70 percent of the vote, and in the presidential race, Clinton thumped Dole in Vermont by a whopping 23 points. With such liberal values and voting patterns, it's little wonder that Vermont trails only Alaska and Hawaii in generosity of welfare benefits. Time and again for the past 30 years, Vermont residents have proved more than willing to pay higher taxes in order to finance progressive social policies. Of course, this willingness might soon face a stiff test, when New York and Massachusetts begin aggressively paring their welfare rolls, perhaps causing some of those cut off to migrate to Vermont in search of high benefits. But Vermont officials are hopeful that the state's generosity will allow for a rough maintenance of benefit levels even with an expanding poor population. It's doubtful that this type of goodwill abounds in most other states.

Even if it does, Vermont welfare officials worry that the supposed leeway the new federal welfare law grants is not as broad as the law's proponents claim. The block grant that has replaced the federal guarantee includes a number of requirements that limit a state's options in devising their own programs, basically forcing states to subscribe to a labor-market-attachment model—a model that emphasizes placing welfare recipients in low-skill, low-wage jobs, rather than developing human capital through education and training.

Thus, the great irony: Were it not for the waiver, the Green Mountain State would be unable to circumvent some of the federal law's more onerous requirements, like its narrow definition of work and the five-year time limit on benefits. "Our program is completely inconsistent with the new law," explains Steve Gold, Vermont's jobs program director. "We're going to move ahead with it, but only because we have a waiver that allows us to do that. If not for that waiver and a willingness to make this stuff work, we might be in the same boat as everybody else." ❑

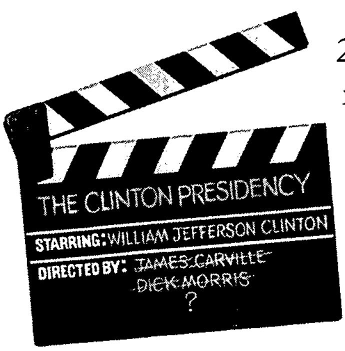
TAKE TWO CAMPAIGN REFORM

Clean Elections, How To

BY ELLEN S. MILLER

The 1996 elections for Congress and the presidency cost close to $2 billion, and produced a turnout of just 48 percent. Some say the late-breaking Democratic money scandals cost the Democrats the House. There is little question that the price we all paid was increasing disdain for the political system. We now have a rare political opportunity as Congress reconvenes to revisit proposals and strategies for campaign finance reform.

But beware "bipartisan" reforms. Both parties have colluded in a system that has generated record sums of special-interest money. A better concept is nonpartisan reform. And we know that for truly far-reaching and clean-sweeping reform to be enacted, the public must be fully mobilized to support it.



The record of failed reform attempts in Congress over the last 20 years offers a clear lesson: Packages of piecemeal reforms do not generate the requisite public enthusiasm. The first task is to frame the outcome we seek, to define where reform ultimately has to take us, and to find a solution that directly confronts the real problems. And the real problems are too much money; too much time spent raising money; the money's influence over lawmakers by the special interests who contribute it; and the reality that good people don't have a fair chance of winning without the money.

No More Dirty Laundering

American voters today are more supportive of dramatic campaign finance reform than at any time since Watergate. This conclusion is drawn from a comprehensive research study undertaken for the Center for Responsive Politics in July and August by the Mellman Group.

Citizens believe that Washington's failure to address their problems is the direct result of politicians accepting too much campaign money from special interests and bowing to the agendas of those who write the checks. They believe that special interests have more control over Washington's agenda than the President and Congress combined. Further, they believe that the campaign finance system today discourages good people from running and makes it too difficult for the few who do.

Campaign finance reform has not yet become citizens' top priority. But when citizens are asked what they don't like about the political system, their overwhelming response is "the money." The citizens in the Mellman-Center for Responsive Politics' focus groups and national poll overwhelming embraced, over other options, a proposal in which candidates would no longer raise money from private sources. Instead, each candidate would receive a set amount of money from a publicly financed election fund and spending would be limited to that amount. This approach, modeled on a Maine ballot initiative that was successful in November, is consistent with the *Buckley v. Valeo* decision of the Supreme Court. Fully 65 percent supported such a proposal after hearing all the arguments for and against it. Voters saw this Clean Money Option as the best step toward solving the problem of special-interest influence in Washington.

Other recent research efforts have corroborated this public sentiment. The Harwood Group and the League of Women Voters conducted a series of lengthy discussions with citizens throughout 1996 that concluded that voluntary full public financing was the best option. Brad Bannon's 1994 polls in five states found majorities in each who backed the same proposal. A Gallup poll conducted in late October 1996 found that 65 percent of the respondents favored full public financing, with only 27 percent dissenting. The Gallup Organization has asked its question repeatedly since 1974 and its current findings reflect the highest level of support for public funding since the aftermath of Watergate. In none of the Gallup surveys since 1974 has support for public financing dipped below 50 percent.

The "Clean Money Option"

The Working Group on Electoral Democracy, an informal association of longtime public policy activists from various parts of the country, developed the Clean Money model reform for congressional elections several years ago. It has been adapted by state-based campaign finance reform activists and was the basis of a proposal for state elections that was enacted by Maine voters, by a margin of 56 to 44. Under this system, once candidates pass a carefully determined qualification threshold, they receive a fixed amount of public money for their campaigns. (For example, candidates for the U.S. House of Representatives would receive $150,000 for the primary and $200,000 for the general election, with additional money available to protect against excessive private spending.) This would eliminate the need to raise private money, and thus eliminate the inherent conflicts of interest that arise when the campaigns of public servants are privately financed.

Public financing is made available for a candidate's entire campaign, beginning with the primary and running through the general election and any runoff. To be eligible for this "Clean Money," congressional candidates would be required to raise a relatively large number of five-dollar "qualifying contributions" from within his or her election district. Eligibility would also be conditioned on candidates' agreement not to raise or spend any private money whatsoever during the primary and general election periods, and thus to limit their spending to the fixed amount of public funding they receive.

Prior to the beginning of the primary, however, prospective congressional candidates would be allowed to raise a limited amount of private, "seed" money, with a $100 per donor limitation on contributions. This money could only be spent on the start-up costs of qualifying for public financing, and couldn't be spent during the primary or general election periods. All the candidates running for the same office who met the qualifying test would receive equal amounts of public financing.

This system would be strictly voluntary, to conform to the Supreme Court's 1976 *Buckley v. Valeo* decision, which allows candidates to spend unlimited amounts of their own money. Candidates would be free to reject the Clean Money Option and raise private money, or to use their own money to finance their campaigns. However, judging from the participation rate in the system of partial public financing for presidential elections, the great majority of congressional candidates capable of financing their own campaigns are very likely to choose public financing instead, once such an option is in place. Of the dozens of Republican and

Democratic candidates who have run for president since 1976, only John Connolly (in 1976), Ross Perot (in 1992), and Steve Forbes (in 1996) have rejected public financing in favor of spending (or raising, in the case of Connolly) their own money. Of these three candidates, Connolly and Forbes lost badly in the primaries, and Perot, who lost in the general election in 1992, decided to accept public financing in 1996. The participation rates are likely to be even higher for a system that offers *full* public financing.

As part of a Clean Money Option, soft money of the kind that now undermines the integrity of the presidential system (because it is used not for generic "party-building" purposes as officially intended, but to support particular federal candidates) would be banned. In addition, with a Clean Money Option, publicly financed candidates who are outspent by privately financed opponents receive additional, "equalizing" funds. In the version just approved by Maine voters, the additional funding is capped at 100 percent of the original amount received, but a higher cap could be set for federal elections. This cap protects the Clean Money fund from being depleted by "the sky's the limit" private spending.

The problem of independent expenditures is addressed in a similar way. Candidates targeted by such expenditures, as determined by the Federal Election Commission, would receive the same kind of equalizing funds. This, of course, does not mean the disappearance of independent expenditures, including those the political parties are now making on behalf of their own candidates thanks to a new loophole recently opened up by the Supreme Court in *Colorado Republican Campaign Committee v. Federal Election Commission*. (In this controversial June 1996 decision, the Court declared that political parties should have the same right to make independent expenditures that individuals and other political committees enjoy, so long as there is no coordination or communication between the parties and their candidates.) However, there is a high likelihood that the equalizing provision will reduce these expenditures because opponents will be able to match them with public money. Also, in a Clean Money Option environment in which all candidates have the opportunity to "just say no" to special-interest money and receive full and equal amounts of public financing, there is likely to be strong voter disapproval of independent spenders who try to circumvent the new system and also disapproval of the candidates they are trying to help.

Failure of Other Approaches

Several alternative approaches have lately been proposed, ranging from a constitutional amendment overturning *Buckley v. Valeo* to a variety of piecemeal strategies. But there is no viable alternative that would bring down the cost of campaigns, free candidates and elected officials from the incessant "money chase," and, most importantly, end their dependency on special-interest contributors.

Establishing low limits on individual contributions has popular appeal and has been approved by voters for state elections in several states. This approach commendably pushes wealthy donors away from candidates, but it forces candidates to spend even more time raising money. In the two locales where it has actually been tried, Washington, D.C., and Oregon, it appears to have led to an explosion of independent expenditures and other methods of end-running the system. Federal courts have subsequently declared unconstitutional both the Washington, D.C., law and a similar measure that was passed by ballot initiative, but never put into effect, in Missouri.

Attempts to provide only partial public financing have not been very successful either. Twenty-three states have some form of partial public financing on their books, but in practice only nine states are able to provide even limited funds to statewide candidates, and only three states provide partial public financing to legislative candidates. The partial public financing system for presidential races that provides matching public financing in the primary and purportedly full public financing for the general election is equally ineffective. Of the approximate $800 million spent on this year's presidential contest, more than $225 million came from "soft" (unregulated) contributions by large private donors, including some possibly illegal sources.

Unfortunately, the McCain-Feingold bill, which went down to resounding bipartisan defeat earlier this year and which its co-sponsors stand ready to reintroduce in January, is another such package. Its complex combination of limits and incentives—seen by many inside the Beltway as the most possible winnable reform—does not represent a compelling, or even comprehensible, solution. No one thinks that the McCain-Feingold bill goes far enough—not even its sponsors. The bill is incom-

plete because the most pernicious influence of money—the checks handed over by special interests to candidates—isn't dealt with comprehensively.

Although McCain-Feingold provides discounted television advertising and mail rates to candidates who agree to various voluntary limits, it offers no public financing and thus perpetuates a system in which candidates will spend lots of time raising money from the same private interests as before. In addition, the voluntary limits on overall campaign spending and the percentage of money candidates can receive from PACs and out-of-state contributors are set at above the average amounts currently being spent or raised.

The McCain-Feingold provisions for limiting soft money and tightening the definition of "independent expenditures" are important and worthy. But by focusing primarily on restricting PAC and out-of-state contributions, the bill ignores a basic reality—namely, that in a society in which wealth is so unevenly distributed, any campaign finance system that requires candidates to raise large sums of private money is bound to be rife with conflicts of interest and unfair to people without access to wealth.

Buckley v. Valeo makes reform difficult, by forbidding mandatory limits on overall campaign spending and by granting constitutional "free speech" protections to contributions by wealthy candidates to their own campaigns, as well as independent expenditures. It is for this reason that former Senator Bill Bradley and many others see the need for a constitutional amendment to overturn *Buckley*. But the road to achieving a constitutional amendment is long and arduous, and for most who have tried to go down it—including, in recent times, advocates of term limits, equal rights for women and men, and a ban on flag burning—the result has been failure. Moreover, an amendment that truly limited all independent expenditures could well threaten legitimate First Amendment rights, such as the right of a newspaper to endorse or oppose a candidate or the rights of citizen groups to run paid advertisements on public issues.

The Clean Money Option provides the best solution to the core problem of money in politics—the influence of private money given directly to candidates for public office. Not only is it constitutional (because it is voluntary), but it is also both comprehensive and comprehensible, enjoying a combination of sweeping effect and simplicity of design that is rare in public policy debates. Limiting campaign spending, reducing government favors to special interests, and leveling the playing field to give good candidates a fair chance of being elected are the goals that drive public support for this proposal.

It is highly improbable that the Clean Money Option would pass Congress today. But within two to four years, conventional wisdom and the political environment can be changed. The Clean Money Option is increasingly the focus of reform efforts outside of Washington. Maine's success will make that state a beacon for others. Nearly a dozen states have some kind of a full public financing proposal under legislative consideration or headed for the ballot.

Editorial endorsements of the Clean Money Option and the notion that campaign finance reform has to be broad and deep are appearing in the national and regional press, including *USA Today*, the *Boston Globe*, the *Minneapolis Star-Tribune*, the *St. Louis Post Dispatch*, the *Hartford Courant*, the *Rutland* [Vermont] *Herald*, and the *Portland* [Maine] *Press Herald*. The *Boston Globe* editorialized that the "Maine plan" ought to be considered a "blueprint" for national reform.

Other public policy debates illustrate what can be achieved. The recent minimum-wage increase serves as a striking example of what can happen when strong public support is effectively engaged in a high-profile policy debate. A year ago, the polling numbers on increasing the minimum wage were quite similar to those today on the Clean Money Option, yet conventional wisdom suggested that Congress, and particularly Republicans, would never vote for it. However, once the President, Democrats in the Congress, moderate Republicans, and outside advocates raised their voices in support of an increase, the latent public support became a potent political weapon. The minimum-wage increase passed, in part, because it was a symbol by which citizens judged Congress's commitment to working families most in need. In this same way, the Clean Money Option can pass if reformers make it a test of Congress's integrity and willingness to divorce itself from special-interest money.

No solution closes all channels of monied influence, but the Clean Money Option blocks the most destructive path, that of large sums of money changing hands directly between special interests and candidates. Piecemeal steps leave this channel open, ultimately reducing reform to little more than minor legislative obstacles for special interests to avoid.❑

DEAD CENTER

BY HAROLD MEYERSON

"We're going to govern from the center," White House political director Doug Sosnik said in the immediate aftermath of the election, and no doubt they will. The question is, which center?

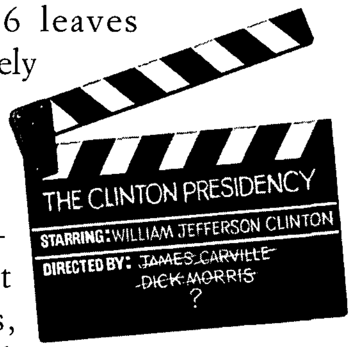
There's the balanced budget center, which has demonstrable popular support. There's the preserve-universal-entitlements center, for which every poll shows majority backing. And there's the *slash*-universal-entitlements center, and the expand-NAFTA-to-all-the-Western-Hemisphere center—centers that don't have much mass support, positions for which you'd never have heard an encouraging word in the election just completed. Democrats and Republicans alike assured voters that cutting entitlements was the farthest thing from their minds, while expanding NAFTA went totally unmentioned.

And yet, there's every reason to think that the reduction of entitlements and the expansion of free trade have emerged from the Stalemate of 1996 at or near the top of the governing center's to-do list for the next four years. The election has assured that we will see no more either of the liberal Clinton of 1993-94 or the rabid Gingrich of 1995. In their stead, we have the center—but the center as defined by K Street and Wall Street rather than Main Street. It was a bad year and a bad election for the yahoo wing of business, the small business lobbies seeking the repeal of every regulation back to the child labor laws; they rose and fell with the Gingrich tide. But elite business—globalist, not crudely antistatist but surely anti-entitlement growth—awoke the morning after the election to find a world wholly to their liking: a gov-

ernment with no branch under liberal control, and inclined to give bipartisan support to business's otherwise not hugely popular agenda. (Indeed, in the first week after the election, the quintessential K Street idea was that Bill Clinton should ask Bob Dole to head a bipartisan entitlement review commission. Crude populists might point out that Clinton had just carried 31 states insisting that he had fought to save Medicare while Dole could not be trusted to, but a true Beltway Bipartisan cannot be deterred by a mere election outcome.)

Besides, the election outcome *was* centrist, if not entirely centrist as the Beltway Bipartisans defined it. Some small, moderately progressive advances may yet be possible during Clinton II—pension portability, mild reforms of HMOs and campaign finance. But the changes that loom large over Clinton's second term—a balanced budget, a scaling back of Medicare, the possible privatization of Social Security, and the acceleration of global free trade—portend not merely a wrenching transformation of the economy, but also a widening of the split between progressive and centrist members of Clinton's own party. By and large, the election of 1996 leaves American liberals facing two (and likely four) years spent struggling for small-scale victories and trying to stave off epochal defeats.

WHERE IS THE RUNNING ROOM? IS THERE ANY RUNNING ROOM?



No wonder the most important liberals of Clinton's first term—Robert Reich, George Stephanopoulos, Harold Ickes—are leaving (though Ickes may merely be downwardly mobile within the administration). Their centrist rivals who chiefly crafted the campaign that returned Clinton to power succeeded all too well—producing a centrist victory that looks to isolate liberals during Clinton's second term.

THE SAFE-'N'-CENTRIST CAMPAIGN

Since there can't be much of a market for a book on campaign 1996 (a year so utterly without interest that Theodore White, had he been alive, might have preferred covering smallmouth bass

for *Field and Stream*), the postelection specials of *Time* and *Newsweek* will have to provide our definitive inside looks at the campaign just completed. In both sagas, the heroes are pollster-strategists Mark Penn and Doug Schoen, whom consultant Dick Morris brought into the White House inner circle. Reich, Ickes, and Stephanopoulos, along with Clinton's former pollster, Stan Greenberg, are the heavies—liberals replaying the campaign of 1992, tiresomely arguing that Clinton address the economic angst haunting millions of Americans. The magazines solemnly recount Penn and Schoen's epiphany on a sweltering July evening in 1995—pouring over poll numbers, realizing that economic anxiety wasn't all it was cracked up to be. "Values!" Penn cries (with all the assurance of the guy in *The Graduate* who tells Dustin Hoffman, "Plastics!"). "It's about values."

Thus a new strategic premise was born—that the economic anxiety that turned up in Greenberg's and other Democrats' polls had subsided, that the Pat Buchanan boomlet was an epiphenomenon signifying nothing, that Clinton should concentrate chiefly on allaying the largely noneconomic anxieties of suburban moms. Clinton didn't discard the liberals entirely—it was they, not Penn, Schoen, and Morris, who persuaded him he would win public support by standing up for Medicare rather than cutting a budget deal. But with that one major course correction, he gleefully trundled down the path that Morris & Co. had charted, hailing the V-chip, ignoring issues of corporate accountability, and winning a smashing victory.

Problem is, the safe-'n'-centrist campaign Clinton waged produced a safe-'n'-centrist electorate, markedly smaller and more upscale than the one that had voted in 1992, when Clinton had waged a more progressive-populist campaign—too small and upscale, in fact, to elect a Democratic Congress. Voter participation declined by about seven million Americans from 1992 to 1996, with almost all that decline coming from Americans in households with annual incomes under $50,000. (Their share of the electorate was 6 percent smaller than it had been in 1992.) Americans with annual household incomes over $50,000, by contrast, represented 6 percent more of the turnout, with all but 1 percent of that increase coming among those with incomes over $75,000.

Democrats poll worse with each step up the economic ladder. Clinton carried those voters from households making under $15,000 by a 31 percent margin, and every category under $75,000 by a successively smaller margin (those making between $50,000 and $75,000 by a scant 2 percent). Dole carried only those voters with household incomes over $75,000, by a hefty 10 percent.

Historically, when turnout falls from one election to the next, it generally falls disproportionately among the non-affluent. This year was no exception: a postelection poll for the Campaign for America's Future showed that voters of 1992 who were nonvoters in 1996 were overwhelmingly downscale and inclined to vote Democratic. Had these vanishing voters shown up at the polls, the popular vote for House candidates would have shifted from a tie between the two parties to a 51-49 advantage for the Democrats—quite possibly enough to restore the House to Democratic control.

The famous victory devised by Penn, Schoen, and Morris, then, came at a price. One could imagine a campaign that at least mixed Penn and Schoen's helpful tips for busy moms with more of Greenberg's emphasis on issues of economic security. Postelection polling Greenberg conducted for the Campaign for America's Future showed considerably more Clinton supporters were drawn to him by his support for domestic programs—Medicare, education, and environmental protections in particular—than by his espousal of such centrist evergreens as a balanced budget, crime prevention, and welfare reform. (The margin was 59 to 31.) Among moderate and conservative Democrats, and first-time voters, the margin was just as wide. More tellingly, both Greenberg's polling and midsummer polling conducted for the Preamble Center showed widespread support for government intervention to make corporations more accountable to the workers they employ and the communities they inhabit—even at the risk of making the corporations less competitive.

That, however, was the campaign Clinton didn't run. At least partly as a consequence of the one he did run, centrist advisers like domestic policy chief Bruce Reed are busily devising microprograms for a gridlocked second term, while liberals flee the administration. As far back as late 1994, Dick Morris was explicit in his preference that Clinton govern from the center and

isolate the left. In 1997 (and in absentia), Morris may yet get his wish. Clinton will here and there align with congressional progressives, but chiefly on discrete issues that may be unwinnable: health insurance for uninsured children, restoring food stamps to legal immigrants, creating $3.4 billion in tax credits for jobs for former AFDC recipients.

> The famous victory devised by Morris came at a price.

But progressive Democrats are likely to find themselves arrayed against their centrist colleagues—and against the Republicans, and the administration—on the major items, much as they were pushed into opposition during Clinton's first term by welfare reform and NAFTA. On the highest-stakes game of all, entitlement reform, congressional Democrats are certainly beholden to labor, which opposes major reductions in benefits, to a far greater degree than the administration is. The Clinton White House could make common cause with congressional liberals in defending entitlements, but that would require it to buck the establishment consensus—a chancy course it generally eschewed during its first term.

With the specter of Gingrichism considerably diminished, the imperative of Democratic solidarity has dwindled as well. The factions in the next intra-party battle can already be glimpsed. During Clinton's first term, House minority leader Dick Gephardt broke with the administration over welfare reform and NAFTA (he even advocated a trade zone with an advanced economy, the European Union, which the administration instantly dismissed); Vice President Al Gore led the charge for both. In the second term, such rifts are likely only to widen, particularly if the Sweeney-ized AFL-CIO has the courage to reward its friends and punish its opponents at the highest levels of the Democratic Party. In general, the era of government retrenchment all but ensures that the Democrats, absent a unifying threat like Gingrich, will increasingly become a house divided.

Realignment and Retrenchment

Republicans emerged from the 1996 elections in even worse shape than the Democrats. After all, the central factor in both Clinton's comeback and the Democrats' gains at the congressional level was public revulsion at the Republican ascendancy—specifically, at the control of the Republican South and Mountain West over the legislative agenda. More succinctly, at Newt.

At the level of presidential politics, the South swung into the GOP's column decades ago. But the Republicanization of the South at the presidential level didn't fully polarize the nation along geographic and cultural lines. Republican presidents, after all, won by carrying nationwide coalitions and espousing fairly broad agendas. The Republicanization of the South at the congressional level, however, has proved far more polarizing. The new leadership—Gingrich, Armey, DeLay, Lott, Nickles—advocated antigovernment positions that threatened middle-class entitlements, aid to education, and the environment. These positions played well in the South and Mountain West but repelled unmarried women and swing groups that had been drifting Republican for a quarter century.

Thus Clinton became the first Democrat in 20 years, for instance, to carry a majority of the Catholic vote (53 percent), running strongest in the most Catholic states in the nation—Massachusetts, Rhode Island, New York—while Dole's states tended to be among the least Catholic. Clinton also carried 25 of the 30 most heavily unionized states; Dole, 16 of the 21 least unionized.

In general, the election marked an intensification of regional political alignments. Of the 19 congressional seats the Democrats picked up, 17 were in states Clinton carried. Of the 12 Republicans picked up, 9 were in states won by Dole. New England emerged from the election with 18 Democratic House members and just four Republicans, with Bernie Sanders thrown in for good measure. And in the vast quadrant of Dole's greatest strength, running from North Dakota south through Oklahoma, west across the Texas Panhandle all the way through the California desert, and north through the Sierras up to central Washington, the Republicans now hold 49 House seats to the Democrats' five.

But Republicans won outside the South and Mountain West (and sometimes within) only by repudiating the Gingrich agenda. Indeed, Republicans emerged from the election in full flight from their antistatism of 1995, beset by doubts as to the viability of the kind of antitax jihad their presi-

dential candidate had waged, and bereft of their historic advantage on foreign and defense issues as a result of communism's untimely demise. Only their insistence on a balanced budget remained to define them—and even here, there were Republican supply-siders in opposition, and, more problematically, Democratic opportunists, the President most especially, in support.

Neither side returns to power, then, with a mandate of its own; indeed, this may have been the most mandateless of American elections. An electorate that turned out at a record-low rate of 49 percent returned the Republicans to the House with 49 percent of their vote and Clinton to the White House with 49 percent of their vote. A minority electorate has given us a minority president and a minority Congress.

> Neither side returns to power with a mandate of its own; indeed this may have been the most mandateless of elections.

Nor does this electorate tend toward activist government. In 1992, after 12 years of Reagan-Bush, exit polls found voters preferring a government that did more to one that did less by a margin of 49 percent to 41 percent. That was both Clinton's and the liberals' moment of opportunity, but both made strategic blunders and neither could overcome the opposition from various sectors of business. In the Gingrich landslide of 1994, the polling on this question reversed itself; just 41 percent favored a government that did more while 56 percent favored a government that did less. Nothing in the 1996 campaign turned this dynamic around: Still only 41 percent favored a more activist government this November, while 52 percent favored a government that did less. This does not mean that Americans want to dismantle existing programs that meet their needs, like Medicare or Social Security. It does mean that a balanced budget amendment has widespread support and that the basic terrain of American politics is largely inhospitable to progressive reform.

So what are the prospects for changing that terrain?

The Keys: Hispanics and Labor

The short list of reasons why the 1996 elections weren't entirely bleak begins not only with the gender gap but also with the emergence of the Hispanic vote.

The 1996 election was the first in which the third wave of immigrants played an appreciable part nationally, and, remarkably enough, the Republicans seem to have knocked them into the Democratic column as thoroughly as they did the second immigrant wave 60 years earlier. Until this year, the Hispanic vote seemed increasingly up for grabs. Over the past decade, though the Hispanic population has been soaring, Hispanic turnout has stagnated, while Hispanics who did vote were moving in a Republican direction (though a majority still voted Democratic). This past November, though, the Latino backlash against Republican nativism suddenly emerged full blown at the polls. In California, the reaction against Republican support for 1994's anti-immigrant Proposition 187 and 1996's anti-affirmative action Proposition 209 prompted unprecedented levels of naturalization and registration; and the Latino share of the electorate jumped from 7 percent (in 1992) to 10 percent. In Texas, where a Latino Democrat challenged Phil Gramm for his Senate seat, the Hispanic share of the turnout rose from 10 to 16 percent. In Florida, where even the Cuban-American community seethed at the Republican welfare bill's termination of aid to legal immigrants, turnout rose too. Nationally, Hispanics went from 3 percent of the electorate in 1992 to 5 percent in 1996.

And they came out to vote Democratic. Nationally, Hispanic support for Clinton rose from 61 percent in 1992 to 73 percent in 1996. In California, Clinton's support soared from 51 percent in 1992 to 75 percent in 1996. Conservatives have long argued that the relatively traditionalist stance of Latinos on cultural questions would incline them to the GOP. Sure enough, while Californians were approving the medical marijuana initiative on the 1996 ballot, Latinos opposed it, by a 51 percent to 49 percent margin in a *Los Angeles Times* exit poll. This had no measurable effect, however, on their other votes. They opposed Proposition 209, the affirmative action repeal, by a 76-24 percent margin. They supported Proposition 210, raising the state's minimum wage, by a whop-

ping 86-14 percent margin, according to polls commissioned by the Southwest Voter Research Institute. In Los Angeles-area neighborhoods that had been Republican strongholds for six decades, they unseated Bob Dornan with a Latina challenger (in Northern Orange County), and ousted enough Republican legislative incumbents (in Long Beach, Burbank, Glendale, and Pasadena) to shift the California Assembly to Democratic control.

The flaw in the Republicans' "traditionalist" argument was that it forgot to note that the Eastern and Southern European immigrants of the century's early years were conservative on cultural questions, too—but when confronted with a Republican Party espousing nativist policies and a Democratic Party that stood for progressive economics, they opted for the Democrats. Led by the wondrously shortsighted Pete Wilson, the Republicans seem bent on recreating that dynamic today. Their continued opposition to repealing the welfare bill's sanctions against legal immigrants will only intensify the Hispanic drift toward the Democrats. If this year's level of Hispanic mobilization can be maintained in future elections, it's conceivable the Hispanic share of the electorate could double in a little over a decade. In 1996, Clinton won nearly a majority of the total vote with support that was just 74 percent white. (Dole's vote, by contrast, was 94 percent white.) Early in the next century, a Democrat could win a majority with a vote just two-thirds white.

There's one other way in which the mobilization of the third immigrant wave parallels the mobilization of the second: In both cases, the immigrant mobilization was hastened by union mobilization. In 1936, Pennsylvania went Democratic for the first time since the Civil War as the state's ethnic steel and mining towns were finally mobilized—by the CIO. In 1996, historically Republican areas in California, ranging from Andrea Seastrand's Santa Barbara district to Bob Dornan's Santa Ana one, went Democratic at least partly because the Latino vote had been mobilized by John Sweeney's new model AFL-CIO.

Labor was the other bright spot for progressives in the 1996 election—although labor's greatest impact came well before the actual vote, when its advertisements last spring placed the Republicans on the defensive on issues like Medicare and the minimum wage. On election day, while working-class voting was falling generally, voting among union members rose. Union household voters constituted 23 percent of the 1996 turnout, up from 19 percent in 1992, and that turnout was heavily Democratic. A postelection poll of AFL-CIO members showed 68 percent to 32 percent support for Democratic over Republican House candidates. While women and nonwhites tend to favor the Democrats in any case, the gap between union and nonunion white males was huge. White male unionists supported Democratic House members by a 61 percent to 39 percent margin; nonunion white men gave Democrats just 36 percent of their vote and Republicans 64 percent.

The problem for Democrats isn't the level of support they attain among unionists; it's the declining number of Americans who belong to unions. In its first year in power, though, the new Sweeney regime threw most of its resources into politics rather than organizing. Some member unions still had a passing acquaintance with how to do elections, though many others had to have their staffers and stewards trained and led gently from their offices to the streets for the first time in four decades. Nonetheless, Sweeney calculated, politics at least held some prospect for short-term success—a calculation that November's vote at least partly vindicated.

Organizing held no such prospects. Labor law had long since decayed to the point where organizing had to proceed around rather than through the law. In some parts of the country, there were three or four internationals that seemed to know how to organize despite the law; but for the rest—for the vast majority—organizing had long been a foreign country. The entire culture of the unions had to be changed—from one where staff serviced the existing membership to one where staff and members organized new members. Organizers and members had to be trained, new strategies developed, joint drives planned. None of this was the work of a single year. And organizing on a scale that could actually reverse the percentage decline in membership—a decline that has proceeded apace for 41 years now—was almost unimaginable.

But absent organizing on that scale, a change in the political terrain is equally hard to imagine. The Republicans will have to be spectacularly inept to have the gender gap widen beyond the historic 16

points it reached this year. The electorate will become more Hispanic (it will not become more black), but not in numbers that by themselves will be transformative, and even that development requires the help of the union movement. Both to shift the balance of forces on election day, and to provide some counter to the corporate domination of the national agenda between elections, progressives need a considerably larger union movement. For its part, the movement is looking at large-scale sectoral organizing drives in some major cities, where it is already helping out, and in some cases spearheading, "living wage" campaigns to require by municipal statute that city contractors increase their employees' pay. Sweeney's regime can already claim considerable success in addressing the subjective factors in labor's decline—issues of personnel, training, and morale. But the objective impediments to union growth—the globalization of the economy, the erosion of labor rights, the atomization of working America—remain in place.

Going With the Global Flow

If there's a message from the 1996 elections, it's that the second Progressive Era has yet to dawn. Even worse, the social compact of the postwar years is coming unstuck everywhere it was put in place. While progressives in both the United States and the United Kingdom search for models in the stakeholder capitalism and welfare states of Europe, the stakeholder capitalism and welfare states of Europe are being disassembled under the pressure of investment flight and a pending unification on terms dictated by financial markets. Instead, it is our model of capitalism, which maximizes profit and minimizes the rights of workers and communities, that seems to be rolling over Europe. We may be moving toward some grand level playing field, but largely by a leveling downward within the industrialized democracies.

And what of an economic downturn—will that at least alter the terrain? Most probably, but not necessarily in a progressive direction. In Europe, where unemployment is stubbornly high and an extensive range of services is being cut back, unionists take to the streets in unprecedented numbers, and right-wing nationalists go to the polls in still greater numbers. The parties of the mainstream Euroleft—the social democratic, socialist, and labor parties that have been in and out of western European governments for the past 50 years—seem oddly distanced from both protests.

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Maastricht looms before them as free trade looms before the Democrats here—a boon to some of their newer, more upscale supporters; a curse to more of their long-term, working-class supporters; a seeming inevitability to all. There as here, the oppositional impulse is forfeited, to unions on the streets, to the LePens and Haiders, Buchanans and Perots at the polls. The parties whose raison d'être was that they successfully built and managed a mixed economy at the national level for several decades after World War II are today so paralyzed they cannot even conceptualize a transnational mixed economy in the wake of the globalization of markets, corporations, and banks.

Clinton's solution, like Tony Blair's and that of an increasing number of leaders of Europe's historically left parties, is to go with the flow. For many of his supporters, Clinton is apparently convinced, the most he can deliver is retrenchment with a human face. Here and in Europe, labor is not sufficiently powerful—optimists among us may say not *yet* sufficiently powerful—to alter that equation. The result is a slow, sometimes wrenching downward drift that over time can only erode support for the onetime parties of government—and for government itself.

Markets are not "smart," nor government "dumb," as Dick Armey asserts; but markets are surely growing more powerful at government's—and politics', and democracy's—expense. It is not only progressives who should feel alarm at this prospect; it is chiefly progressives, though, who must begin to remedy it.❑

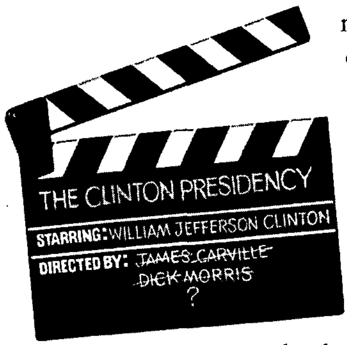
TAKE TWO ENTITLEMENTS

WHY BOOMERS DON'T SPELL BUST

BY RICHARD C. LEONE

With the election behind us, brace yourself for the real debate about the future of Social Security and Medicare. The alarmists in this fight have a simple central argument: Many baby boomers (those born between 1946 and 1964) will live to a ripe old age, making the country a poorer place for everyone, especially those still in the workforce. In the most extreme formulation, pessimists project that, in the next century, we'll be taxing wages at an 80 percent rate to pay for entitlements. (I leave it to others to explain how, in this era of strong antitax sentiment, such statements get someone labeled "refreshingly realistic" whereas proposals to refinance Social Security with a 1 or 2 percentage point increase in the payroll tax are considered politically crazy.)

The aging of the boomers does pose serious public policy questions, but much of the concern, especially with regard to Social Security, is overwrought. The doomsday scenario is based on the ratio of dependent aged people to the working-age population. The more meaningful comparison is the ratio of dependent people of all ages, including children, to working people. When that comparison is made, it turns out that the booming 1950s and 1960s actually had a higher dependency ratio than the ratio projected for the next century.



Longevity, of course, has been increasing since the founding of the Republic. Accompanying that extension of life span has been a growth in per capita income that makes America today rich beyond the dreams of any of our forebears, and fabulously rich by the standards of the world at large. Granted, we haven't gotten rich because people are living longer, but neither has longevity bankrupted the nation. Today, we're less sure than ever about when people are too old to be productive. Today's elderly are both healthier and better educated than were their predecessors. In 1974, the average educational attainment of the elderly was eighth grade; now it's twelfth grade and going up.

Our overall economic pie is a product of many things: the labor of those working; the exploitation of resources, some of them irreplaceable; and the use of capacity (capital stock) created by past generations. The real economy's goods and services are allocated in our society by, in addition to the accident of birth, a complex interaction of capitalism and democracy. If you do well in the marketplace, you can take care of yourself when you're old. If you don't, our political system has produced a limited safety net, composed largely of Social Security, Medicare, and Medicaid, that covers minimal needs.

When the Boomers Were Babies

The attack on current safety-net policy insists that we are overly generous to the elderly and that their growing numbers relative to the working population make current levels of consumption by seniors unsustainable. In the future, it's asserted, there will be too few workers to produce enough to support the social safety net. But when they were kids, the baby boomers posed a challenge that may have been even greater. There were even more of them then, and for 15 or 20 years they produced little. They made complicated demands on the real economy, and society had to respond out of the much smaller economic pie that existed at that time.

Today there are 120 million Americans at work and 140 million not working (46 percent workers). When the boomers are all retired in about 2030, there will be 160 million workers and 200 million nonworkers (44 percent working). But recall that in 1964, when the boomer population peaked, there were 70 million Americans working and 120 million not working (37 percent working)—a ratio considerably "worse" than we can expect in the twenty-first century. Another way to look at the dependency "burden" is the number of young and old dependents per 100 workers. In 1993 that ratio was about 70 to 100. It will rise to 83 per 100 in 2030. But, again, in 1964 it was "worse" at 96 per 100.

Odd, isn't it, that no one, including the boomers' parents, recalls the 1960s as an era of economic deprivation?

As kids, boomers comprised over 40 percent of the population; today, they are less than 30 percent; in retirement they'll drop below 25 percent. The cost of raising the boomers was high; conservative estimates of the average cost of raising a child are about $300,000, in current dollars. (Coincidentally, this number is almost identical to the "insurance value" to a family of Social Security coverage.) But there was no free lunch: Boomers as children consumed goods and services from the real economy, just as they will as seniors.

In the postwar era, school systems routinely were overloaded. The market for consumer goods was transformed by the special demands of millions of children and teenagers. Boomers started changing American culture during the 1940s, and they are still at it. Rock and roll, increasing crime rates, and suburbanization are all related to the youth and numbers of the boomers. Subsequent revolutions in the labor market, family and marriage, the status of women, and the civil rights movement are also, to varying degrees, connected to the sea changes brought about by the boomer generation.

The Challenge We Met

From the beginning, the Americans who had lived through the Great Depression and World War II expected the public sector to play a pivotal role in the adjustments caused by the arrival of 80 million boomer children. The government did produce vast programs to build schools, train teachers, and, later, to provide college loans and grants. Between 1952 and 1970, elementary and secondary school expenditures increased more than 275 percent in inflation-adjusted dollars. Between 1964 and 1980, the number of college and university students increased more than 125 percent, and the number of college instructors more than doubled. The boomers' parents, through their taxes, built these schools and colleges for their own and other people's children. Americans also provided support for the nearly 30 percent of boomers who lived some part of their childhood in poverty.

What are we to make of all this? With fewer resources, with higher marginal tax rates, the boomers were fed, clothed, educated—as Bob Dole would say, whatever. At the time, we also had a higher national savings rate—in other words, more foregone consumption by workers. Theda Skocpol emphasizes that the burden was easier to bear because the nation invested much in "upgrading" the boomers' parents, especially through the GI Bill [see "Delivering for Young Families: The Resonance of the GI Bill," *TAP*, September-October 1996]. Eight million veterans sought higher education, more than doubling the percentage of Americans who went to college. The cost was about $100 billion, in 1996 dollars. But the real purchasing power was even greater: veterans went to Princeton on the GI Bill's $500 stipend. Veterans Administration housing subsidized about a quarter of all the new residences in the nation. In fact, public investment in both people and infrastructure was very high during the entire postwar period.

Today, the success of the boomers' parents is explained largely in terms of the extraordinary economic growth for 20 years after World War II. To be sure, the psychological effect of being part of a

rapidly rising tide of income was an important factor. Similarly, the sense of the nation's ability to deal with big problems through the public sphere was another unprecedented characteristic of the era. The boomers' parents, after all, had lived through the Great Depression and World War II. These back-to-back events created an overwhelming sense of America's ability, with people pulling together, to overcome obstacles. Families having more children could hardly have seemed like a catastrophe.

While growth is slower today, the economy continues to expand, and, even given modest assumptions about the future, will continue to grow. The economist Robert Eisner and others point out that, compared to 1964, we shall have triple the resources available (in constant dollars) in the next century. The boomers' parents shared a gross domestic product that, per capita, was $12,195 (inflation adjusted). We now produce $20,469 per capita, and in 2030 we'll have an estimated $35,659 per capita. These projections assume modest growth of less than 2 percent annually for the next 75 years.

In this context, the alleged fears of the future by some members of Generation X, who will inherit the largest economy in the history of the world, seem somewhat out of proportion. As far as we know, we face nothing like the Great Depression or international threats on the scale of Hitler, Imperial Japan, or the Soviet Empire. It is not given, after all, to any generation to have completely smooth sailing. A larger number of older people would seem, by twentieth-century standards, a reasonably modest challenge. A more realistic assessment of the balance between the challenges Generation X is likely to meet and the resources available to meet them should inspire optimism rather than apprehension.

Of course, there are those who insist that in the pinched, slow-growth economy of the future, it would be unjust for seniors to have so much of the pie. This argument, usually couched in terms of "generational justice," implies that we can't afford the consumption of those who contributed so much to building the economy. Remember that the boomers represent the largest workforce we've ever had—a workforce that expanded the economy more than any previous group. The boomers' children will inherit a vastly larger economy with enough resources for all. Every generation depends on others: Children must depend on parents, as well as on strangers who build bridges, plants, schools, office buildings, and industrial equipment. Even the debt a new generation must pay off is accompanied by the government bonds and other assets that it inherits. Should boomers charge rent for the portion of the nation's capital stock, including knowledge and inventions, built or dreamed up by their generation?

While boomers came into the world with nothing, on their way out they'll have a few trillion dollars in pension funds—more than any previous generation—and substantial real estate to help pay the freight. But they are not all likely to get lucky and fully fund their own retirement with no help from Uncle Sam; capitalism just doesn't work that way. Of course, if, somehow, all the elderly did turn out to be like Bill Gates, they'd be able to command all the goods and services they wanted. Then they would get more of the pie, and younger people would get less. More specifically, consider the preferences of rich seniors as consumers: It's a good bet that they buy as much or more medical care than those completely dependent on Medicare.

Paying for Health

Since most aging Americans are not wealthy, the question of how to finance their growing need for health care will be resolved, not only in the marketplace, but also in the public sector. A bipartisan commission to study Medicare is only a first step. The coming struggle is sure to be politically brutal, with no "winners" and lots of painful choices. The issues in health care are simply much harder to deal with than are the rather modest adjustments necessary to sustain Social Security.

By 2030 nearly 20 percent of the population will be eligible for Medicare, up from 12.8 percent today. The advance of medical technology and other trends will almost surely keep health costs rising faster than general inflation. Increasing the number of the elderly in managed care may help the short-term problems of the Medicare trust funds over the next decade, but the potential savings from managed care as we know it are not sufficient to pay for the expansion of the Medicare population and the higher costs per capita on the horizon. If America responds to the aging of the baby boomers as it did to their youth in the 1950s and 1960s, we will agree to pay the higher taxes that their medical care will cost even as the program is subjected to stronger cost controls. If, however, America responds as the alarmists urge, the program will just be cut by reducing the number of beneficiaries (for example,

by means testing or raising the age of eligibility), restricting benefits, or sharply rationing care. But let us not fool ourselves: Extreme restrictions are not economic necessities; they are political choices.

To the extent that the growing Medicare expenditures reflect the preferences of consumers and voters, they are not "bad" for the nation. Health care, after all, is a high-tech domestic industry, with a growing base of domestic jobs that pay reasonably well. A population that spent even more on health care would not necessarily be worse off than we are today.

> Extreme restrictions are not economic necessities; they are political choices.

Fallacies of the Apocalypse

Although the future will involve plenty of unpleasant surprises, a close look at the alarmists' economic projections reveals how far-fetched they are. Their pessimism—especially in terms of the likely real economic situation 30 or 40 years from now—involves numerous internal inconsistencies. The Social Security Advisory Commission, for example, already assumes reasonably slow growth for the next generation or two. The alarmists think the projections should be even grimmer. Why? Surely not because the nation will be older; there is no serious economic analysis upon which to base such a projection (take a peek at already-old Japan and Germany).

The slow-growth scenario is used selectively by those eager to dismantle the safety net. One of the remedies proposed for Social Security, for example, is buying stocks because, it is argued, equity values compound annually (apparently forever) at 7 percent a year. The continuation of such a performance for 75 years in an economy that they project to grow by less than 2 percent a year would be truly amazing!

And what about the push to recalibrate the inflation rate, thus cutting cost of living increases for the elderly? As the economist Dean Baker points out, if this guess about the inflation rate is correct, the forecast for average income in the next century should be dramatically increased. For example, the current estimate of per capita income—$35,000—for 2030 would have to be more than doubled. If we're all going to be that well off, what's the justification for arguing that we have to destroy Social Security in order to save it? In other words, when it supports their arguments, the alarmists emphasize a sluggish economy; when it doesn't, they're back to the rosy scenario.

Realism about the size of the overall economic pie and guidance derived from the lessons of the past should shape adjustments in entitlements for seniors. But our approach also should conform to basic values shared by most of the elderly. "Solutions" like privatization of Social Security that are sure to increase the already serious levels of inequality should be smoked out as ideological preferences and not fiscal imperatives.

As a society, we can continue to insist that if you work hard and play by the rules, you can count on a social safety net in old age. Let's reject plans that are likely to increase poverty among any age group. And we can stay true to tested principles by fighting harder for policies that are already part of mainstream politics: controlling the budget deficit while protecting Social Security and Medicare; increasing the minimum wage and expanding employment to bolster savings and growth; and directly addressing the corrosive effects of the growing income and wealth inequality.

The boomers' children, like the boomers' parents, will muddle through. When the boomers were kids, there were also occasional squeezes on resources: double sessions in schools all over the country and a crisis over the need for more college spaces and faculty. The boomers will get less than they want, but far more than the alarmists think is possible. Politics will continue to play the most significant role in how this shift takes place. Both the values of a democracy and the realities of capitalism support the basic soundness of the current framework for policy, albeit with changes that strike a balance among the competing demands of Americans of all ages.

America is facing change, but not disaster. We can be realistic about the future and still believe that the nation can grow older gracefully. So, we should hang on tight to the most fundamental contract we have with one another: If an American works, and then can't work because of age, that citizen will not have to live in poverty.❑

WHO GOVERNS GLOBALISM?

BY WILLIAM GREIDER

For roughly 50 years, the U.S. government has served as the tolerant and broad-shouldered leader that articulates the global trading system's putative rules and values and scolds (or sometimes punishes) those nations that fail to observe them. American policy permits the liberal dispersal of its own advanced technologies. It encourages and subsidizes U.S. multinationals globalizing their production. It provides financial support for foreign development and for the global institutions that supervise international finance and developing economies. It generously guarantees the military security of its economic competitors. It educates engineers and scientists for the world.

But the U.S. economy provides more crucial support for the global system: The American market serves as buyer of last resort for the world, the only major economy that is willing year after year to absorb gross surpluses of production from other nations. Furthermore, with the government's blessing, American enterprise facilitates the global adjustments to continuing overcapacity and other market tensions by gradually abandoning elements of its home base of production. The U.S. manufacturing structure adjusts more readily than others, dispersing or shutting down, and thus allows the world's industrial base to migrate. In these and other ways, the great wealth of American economic life serves as a kind of safety valve for the global marketplace, reducing conflicts, keeping it afloat.

This role cannot continue indefinitely and may soon come to an end. As America's economic dominance has steadily weak-

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ened, the nation takes on an increasing volume of foreign indebtedness through its large and persistent trade deficits—the losses sustained every year by buying more goods from other economies than they are willing to buy from the United States. At the same time, the nation's broad capacity for mass consumption is being slowly eroded by declining real wages and the loss of high-income employment, whether from technological reform or the migration of manufacturing sectors. Thus, the nation's economic resilience is weakening as its debt obligations accumulate.

A very rich nation can manage to do this for quite a long time. But not forever. As the enormous U.S. trade debts accumulate, the dollar declines steadily in foreign-exchange value, reflecting the country's diminishing relative strength. At some point, the nation's devalued purchasing power in global markets will, literally, price it out of buying so much from others. Like Britain's before it and for roughly the same reasons, American hegemony will end.

These assertions, I know, will sound quite extreme to those celebrating Bill Clinton's second inaugural and the U.S. export boom or cheering on the diplomatic action to produce additional free trade agreements. The only challenge facing the global trading system, conventional wisdom assumes, is to expand free trade further. Self-satisfied opinion leaders, reassured by the restored competitiveness of American firms, are quite blind to the underlying realities.

In the global economic context, America's financial balance sheet turned negative during Clinton's first term and will, ineluctably, worsen sharply in the years ahead (not because of Clinton since he was merely continuing inherited doctrine). Orthodox economics will blame this deterioration on Americans' spendthrift habits, but the real cause is the unbalanced trading system itself—and America's longstanding willingness, as cheerleader for laissez-faire trade, to absorb the surplus production of other economies.

American interests aside, the central and ominous condition confronting the global system is the vast, and growing, surplus of productive capacity—not just surplus labor but surplus factories and across nearly every major industrial sector. This threatening reality of burgeoning surplus is almost never addressed in American political debate, but it is well understood by multinational managers (and by many foreign governments) because this condition drives the fierce and relentless price-cost competition, the deflationary force that produces recurring waves of downsizing and deindustrialization.

If all the factories in the world cannot sell all of the goods they produce, who must close their factories and send the workers home? Company managers hope it will be the other guy. Industrial nations hope it is some other country. Amid the fantastic expansion in trade and new markets, this underlying disorder is very difficult to see and America's benevolent openness helps mask it. The buyer of last resort has kept the global supply problem from reaching critical mass.

Going Negative

Despite Clinton's youth and energetic style, his presidency has been conventionally devoted to the same economic premises that have guided American governments since World War II. Free trade and liberalized markets for business and finance, the active promotion of American multinationals and globalized production, a tolerant stewardship of the world trading system, a vast military infrastructure committed to ensuring world order for others—Clinton inherited these commitments and optimistically elaborated on them.

Yet the United States crossed a critical negative threshold in its national worth during Bill Clinton's first term. In the fourth quarter of 1993, for the first time in nearly a century, the outflow of financial returns paid to foreign investors on the assets they held in America exceeded all of the profits, dividends, and interest payments that American firms and investors collected from their investments abroad. The following year, 1994, the annual outflow was negative for the first time since 1914.

The initial loss seemed trivial, less than $30 billion, but the bleeding was now visible and sure to accelerate—even compound and hemorrhage—if nothing fundamental was changed in America's position. The outflow of these so-called factor incomes reflected the nation's true balance sheet in the global economy. They were the net sum of earnings on assets going both ways—the profits and interest payments foreigners got from what they had lent or bought in the United States minus what Americans got from their assets overseas. The outflow covered every form of public and private investment, including real estate and corporate stock shares and venture capital for the govern-

ment and corporate bond borrowings and commercial bank loans.

Bottom line: While U.S. multinationals were finding robust new markets abroad and adventurous financiers realized amazing rates of return on their capital, the global economy was now a losing transaction for the nation as a whole. As recently as 1980 the United States enjoyed a net surplus in "factor incomes" every year of $35 billion or so, equal then to 1.5 percent of the national income. The inflows had exceeded outflows by nearly two to one. The money repatriated from abroad was like an annual bonus to the national economy, the returns from decades of previous investments around the world.

Cumulatively, since 1980, Americans have bought $1.5 trillion more than they sold in their merchandise trade with foreign nations. The trade deficits started modestly in 1975, exploded during the 1980s, and, despite ebbs and surges, set a dollar-volume record of $180 billion in 1995. Like any other sort of debt, these foreign obligations had to be covered every year. Collectively, the U.S. economy either borrowed the money from abroad in the form of government bonds and private borrowings or foreign capitalists came to the United States and bought things—income-producing assets like office buildings in Los Angeles and New York, auto factories in Kentucky and Ohio, or whole companies like Honeywell or Columbia studios.

Year by year, as it has added up, the cumulative process has produced an epochal shift of wealth, probably unmatched in human history for its size and speed, as the richest nation on earth swiftly redistributed wealth to others. As economics professor Wynne Godley at Bard College's Jerome Levy Economics Institute has described, the United States went from holding a net surplus of foreign assets equal to 30 percent of its own annual economic output in 1970 to a debtor position by 1994 of -8.5 percent. That is, foreign interests now owned the net surplus of assets—equal to 8.5 of the U.S. annual gross domestic product. That was why the flow of profits and interest turned negative.

As Godley observed, it might have been worse—and occurred sooner—if the foreigners had been smarter investors. The Japanese bought lots of California real estate in the 1980s at its peak—just before prices collapsed—and took a bath on many other U.S. investments as well. Americans were amused or reassured by this only if they did not understand what was actually happening.

America's Growing Foreign Debt

The ominous truth, though widely ignored and often denied in American political debate, was this: Given the immutable laws of credit and compounding interest, America's debt position was going to rapidly deteriorate further in the immediate future as interest payments mounted on an outstanding balance that was itself still growing, as the negative outflow of annual returns to foreign investors grew larger, too. Each year the American economy was taking on new balance-of-payment deficits equal to 2 to 2.5 percent of its total economic output. And the nation was borrowing to cover this shortfall at real interest rates between 3.5 and 4 percent. When interest payments and the negative flow of "factor incomes" were added, it meant that the nation's foreign debt obligations were growing at a much faster pace than the underlying economy that would have to pay them. That equation, if continued, defined the classic debtor's trap, familiar to any household that tries to live on its credit cards.

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Given present trade trends and the elevated level of global interest rates, Godley warned that America's debt position in net foreign assets—now around 9 percent—would roughly double in five or six years, reaching 20 percent of the U.S. GDP by 2000. Then, by 2005, it would reach 30 percent and, five years later, more than 40 percent. As dire as these estimates sounded, they merely extended the present trajectory to its ruinous conclusion.

In fairness to American economists, some of them had sounded the same alarm a decade earlier when the United States was first sliding into heavy trade debts during the 1980s. Their warnings were

largely ignored. Besides, they were accused of "crying wolf" since nothing grave seemed to happen as a result.

As the nation failed to confront this new condition, various evasive rationales took hold instead. The annual trade deficit reached a peak in 1986 of nearly 4 percent of the overall economy and by that measure subsided in subsequent years, so it was possible to claim that this problem would eventually correct itself. Or, as many argued, the declining values of the dollar in foreign exchange would solve the problem by reducing the global prices of U.S. exports. Ten years later the dollar had declined from 250 to 90 yen. The trade deficits endured.

> "You got excess capacity and you can't sell it anyplace else? Sell it to the Americans."

In time, political discussions of the trade deficits subsided in exhaustion and elite opinion settled instead on a simpler explanation for the problem: It was Americans' profligate consumption habits—free spending and low savings and heavy indebtedness, especially the government's fiscal deficits—that explained why the United States was out of balance with the rest of the world. America was living beyond its means and an obvious solution was to stop doing so. As a bookkeeping proposition, this seemed to make sense: Anyone who saves more will have to borrow less.

The problem was that reality did not cooperate with this theoretical assumption. If the theory was correct, then the trade deficits should have shrunk visibly during Bill Clinton's first term since savings rose as he took early, dramatic action that substantially reduced the size of the federal deficits. Instead of subsiding, the trade deficits soared. Why? Because the American economy was growing again, coming out of the worldwide recession a bit ahead of other major economies and pulling in more imports from them. All of Clinton's celebrated activism on trade, challenging import barriers in Japan and China, promoting new trade agreements, did not alter this trend in the slightest.

The awkward fact was that across the last twenty-five years, real-world experience has revealed only one sure way to reduce the U.S. trade deficits: Put the U.S. economy in recession. That perverse relationship has materialized four times since 1970: Each U.S. recession temporarily produced a surplus in its trade balance or at least sharply reduced the trade deficit. Each time, when the economy came out of recession, the trade deficits resumed and grew steadily, right along with the American economy. Contrary to the conventional theory, the federal deficits actually exploded in size each time that the trade deficits shrank—for the very good reason that the economy was contracting.

Obviously, recession did not offer a satisfying solution (or a viable one unless politicians could persuade Americans to accept permanent conditions of stagnation). More to the point, the recurring pattern suggested there was a deeper structural explanation for the persistent U.S. deficits: the unbalanced behavior of trading nations themselves. If Congress ever actually did balance the budget, the evasions might at last be exhausted because the trade deficits would resume just as soon as the economy recovered. People would then have to face the real source of America's growing indebtedness: its willingness to serve as the world's buyer of last resort.

Economic theory assumes that markets always come into balance—supply matches demand—but the profound anomaly of the last 20 years of technological revolution and expanding global trade is that roughly the opposite has occurred. As global markets integrated and expanded, as dazzling new industrial methodologies increased quality and reduced costs, major sectors of production got further and further out of balance with their available market of buyers.

The most vivid example of expanding overcapacity is in the global auto industry, but the same general condition is present in aircraft, chemicals, steel, drugs, tires, consumer electronics, and some others. Leading-edge technologies like semiconductors are generally an exception, as the newly invented products foster rising demand, though those sectors live with their harrowing cycles of mismatched supply and demand. The overcapacity problem was compounded, of course, by the end of the Cold War, as the nations of Eastern Europe

entered the market, with their own skilled (and cheap) workforces and industrial capacity.

To appreciate the dimensions of this disorder, consider these internal estimates provided to me by a major American auto company: In 1985, the global industry could produce 60 million vehicles for a marketplace that would consume only 45 million. Capacity was in excess by about 25 percent. A decade later, the same auto company calculated surplus capacity of 30 percent. World demand had grown, but productive capacity was growing faster (despite the scores of closed auto plants).

By 2000, with new production coming from Korea, China, India, Brazil, and elsewhere, the global production capacity will exceed global demand by a staggering 36 percent, the company estimates. The global system will be able to turn out 79 million vehicles for a world market that can buy only 57 million. In other words, to bring supply into balance with demand, the industry will have to discover a new market of auto buyers that is much larger than the United States (nearly twice as large). Put another way, roughly one of every four auto plants around the world is redundant, will not be able to sell its cars, and should be closed.

The creative destruction—displaced workers, wasted assets—is not subsiding, as many assume, but sure to accelerate. Every smart business leader knows this. That is why they keep whacking away at the size of their own companies.

But, if there are already too many factories, why do companies and investors keep building more of them? Because the dynamics of the global system do not leave them much choice. The technological competition drives firms to modernize output and close older factories, but the new production, by its nature, typically adds more than is subtracted. The price-cost contest leads firms to replace well-paid workers with cheaper ones but dispersing production to poorer countries requires new factories too. The desperate search for buyers pushes companies to enter hot new markets like China where demand is rising, but the price of entry is always a piece of the action—sharing production by building more new factories.

All these factors and some others help explain the enduring and expanding imbalances of supply and demand, but there is one more fundamental explanation: the eroding incomes of workers and the related weakening of consumer demand. Crudely stated, the dispersal of the global industrial base exchanges a high-wage worker in America or Europe (or even Japan) for a much cheaper worker somewhere else. The new industrial workers in, say, Indonesia or Hungary gain their own equivalent to the consumer demand, but less than the higher-wage demand that has been lost on the other end of the system. The sum effect is an industrial machine that produces in brilliant abundance but cannot find enough buyers.

The Buyer of Last Resort

With these facts in mind, one can begin to grasp the crucial role played by the United States as residual buyer. "We are the market of last resort," says Clyde Prestowitz of the Economic Strategy Institute. "You got excess capacity and you can't sell it anyplace else? Sell it to the Americans. We are also the market that props up development. If you are China or Indonesia, Thailand or Korea, you achieve rapid economic growth by supplying the Americans. You run a trade surplus with the U.S. and that's how you earn the capital to finance the rapid growth."

Despite the many sermons about making U.S. exports more competitive in the world, the real abnormality in global trade was centered on U.S. imports—the foreign goods that freely penetrated and, in some sectors, took over America's domestic market. In recent years, U.S. imports of goods accounted for 15 to 19 percent of the world's total trade (while its exports ran around 11 to 12 percent). If America's trading position had held constant since 1980, the level of its exports would not be much different 15 years later, but the volume of its imports should have been two-thirds smaller.

The heart of this abnormality was manufacturing. According to Wynne Godley, America's imports of manufactured goods (a slightly narrower definition than merchandise trade) rose from 14 percent of total U.S. manufacturing output in 1977 to 36 percent in 1993. The annual trade deficit in manufactured goods was by itself equivalent to 2.2 percent of the nation's total GDP—virtually accounting for the entire trade deficit.

Across five centuries of capitalism, manufactured goods have always been the vital center of trade among nations. That was why poor nations struggled to attain manufacturing sectors and why developing countries protected their infant indus-

tries by refusing to buy imported goods from others. Or why the U.S. government itself subsidized technological research and overseas sales. It was also how postwar Japan went from poverty to great wealth, as other nations hoped to do themselves.

Until lately, Japan was the principal source of the global system's trading imbalance, growing from its surplus of $5 billion in 1980 to $135 billion in 1995, equal to about 3 percent of its own gross national product. Most of the surplus—about $70 billion—was assumed by one country. A hoary joke among international economists went like this: "The trouble with the Japanese economy is that it depends on outsiders. It depends on Korea for labor, on Saudi Arabia for oil, and on the United States for consumer demand." But many other Asian nations, led by China, are now following the same track. [See Chalmers Johnson, "Breaching the Great Wall," page 24, and Robert Dreyfuss, "The New China Lobby," page 30.]

> It makes no sense for American taxpayers to subsidize the dismantling of their own industrial base.

These growing imbalances inspired the Clinton administration to launch its aggressive salesmanship in the so-called big emerging markets, promoting U.S. companies in the developing nations that participate in the Asia-Pacific Economic Cooperation (APEC). Behind the headlines, the frustrating reality was that APEC was the main problem. Following Japan's model, the APEC economies restricted imports one way or another and exported aggressively, relying mainly on U.S. buyers.

"It's hard to imagine the Asian nations changing their strategies when those strategies are working for them," said Robert A. Johnson, a global financier in New York. "Clinton hammers on the Japanese, and they keep promising to open up, but it's going to take 20 years to pull it off. Does the U.S. have 20 years? Not at its current rate of indebtedness."

The visible indicator of the coming crisis was the dollar's historic decline in value. Sooner or later, the dollar's value would become so diluted that foreign investors would either refuse to buy more U.S. bonds and other debt paper or else they would demand punishing interest rates in exchange. Conceivably, the dollar would also become so cheapened in foreign exchange that as this made foreign products more expensive, U.S. consumers would literally be unable to afford to buy so much from others. This would restore balance, of a kind, but at the price of a much lower U.S. standard of living.

To prevent this eventuality, the United States would have to do something "rash," both to save itself and the system. The U.S. government was not as defenseless as it appeared, but in order to act, the political order would have to acknowledge the nations' dilemma frankly and resign from the role of apostle and guarantor for the global system. Either American statesmen would have to bargain much harder for reciprocal access to foreign markets, or they would have to invoke a forbidden word in American politics—tariffs—and be prepared to use them in the national interest. Contrary to mythology, emergency tariffs to correct a nation's grave financial imbalances are not prohibited by GATT and indeed countries regularly use them. Extreme as it sounds, the United States may have to do the same—or at least seriously threaten that possibility.

WHOSE MERCANTILISM?

Bill Clinton has continued the bipartisan trade strategy of his recent predecessors—a brand of patriotic mercantilism that advances the particular fortunes of America's multinational corporations by winning new markets for them, but without solving the chronic and harmful imbalance in the trading system. American firms keep finding new markets and new destinations for outward investment, but the chronic trade deficits continue. Clinton has dispatched cabinet officers to China, India, Indonesia, Malaysia, and elsewhere, often accompanied by corporate CEOs, to help sell their goods. The President personally celebrated when they came home with new contracts. His trade negotiators provoked a series of dramatic showdowns with other governments, demanding that the Japanese, Chinese, or others open the door to various American products. Government policy took its cues in this from the major multinationals. "In our system," former Commerce Undersecretary Jeffrey E. Garten confided, "the fact is, trade poli-

cy is driven by private interests."

But a provocative question was never asked: Did all this globe-trotting activity on behalf of private interests actually benefit the broader national interest? The government's salesmanship would surely be good for the companies, but was America's openhanded approach to the global system actually good for the nation and most of its citizens? In broad terms, the accumulated evidence appeared to be negative: the general stagnation of incomes and loss of high-wage jobs, the slower U.S. economic growth, the widening extremes of wealth and poverty, the nation's staggering foreign indebtedness, the general sense of insecurity and social stress.

Many of the very export deals that Clinton celebrated actually required the transfer of American jobs to foreign economies—elements of the production base that were permanently ceded to other nations in order to win their sales. Alongside the perennial trade deficits, this represented the other great force steadily weakening the American economic hegemony. The United States was not only buyer of last resort, but also the most flexible industrial economy in terms of its willingness to shut down or offload its manufacturing production. Other nations, rich and poor, targeted manufacturing sectors and did whatever they thought necessary to develop them or hold on to them. The U.S. perspective was more global, as though it did not matter where basic industries were located so long as the corporations were competitive and prospering and exports were expanding.

In this way, America provided another crucial form of support for the global system. As other nations built new industries and overcapacity inevitably developed in those sectors, the United States took the adjustments. Not right away, of course, but over time, U.S. firms either closed out production in the face of foreign imports or began to share their production base with foreign customers and competitors.

In the world at large, the great contest among nations was for permanent shares of the emerging global industrial base. In the United States, this contest was regarded as illegitimate, offensive to the doctrine of free trade, and detracting from the efficiency of the marketplace. Against this background, the trade activism of Clinton and his predecessors seemed quite limp and sometimes even counterproductive. It begged key questions: What exactly was "American," if American companies were producing in factories all over the world, often in partnership with their competitors? If free trade was a good thing, one now had to ask more precisely: Good for whom?

When President Clinton promoted Boeing's aircraft sales abroad, for instance, he was also championing Mitsubishi, Kawasaki, and Fuji, the Japanese heavies that manufactured a substantial portion of Boeing's planes. Boeing was offloading jobs from Seattle and Wichita to China as part of the deal. When U.S. Trade Representative Mickey Kantor staged a press conference to protest against Japan's closed telecommunications market, his staff had to make certain the "American" Motorola cellular phone Kantor held aloft did not come out of one of Motorola's factories overseas.

At the U.S. Export-Import Bank, an agency that underwrites billions of dollars of export deals with its subsidized financing, major multinationals launched an insider campaign to loosen—or, better yet, abolish—the "local content" requirements on the bank's loans and guarantees. General Electric, IBM, Caterpillar, and AT&T needed cheap, taxpayer-financed loans to compete successfully for global sales, and didn't want to be hampered by petty inquiries about where the products were made. But if in fact the multinationals chose to manufacture their U.S. "exports" in other countries, why should American taxpayers help them at all?

From the point of view of the U.S. multinationals, America's trade deficits really didn't matter. A sale was a sale, regardless, whether it came from a domestic or foreign factory, whether it was booked as an export or an import. If one accepted their perspective, then the United States looked much stronger since American firms were more widely dispersed than foreign firms. If trade accounting was done according to the commercial flows of the globalized firms instead of the country, then America actually enjoyed a huge surplus "on an ownership basis."

But which Americans were the owners? The logic seemed suspect as soon as one asked that question. The foreign trade indebtedness that the United States has accumulated would not be paid by the stockholders of Boeing or General Electric or IBM, but by Americans generally. In another sense, it was already being paid by American workers who experienced lost jobs or shrunken wages.

Global firms might escape from the national borders, but debtors and workers would not.

FOCUS ON THE COUNTRY, NOT ON THE COMPANY

If America expects to lead the world into the future, it will have to get its own accounts straightened out first. First, it must bring a halt to the unbalanced trade that is draining national wealth. Second, the government must shift its primary focus to defending the U.S. industrial structure and employment, not the U.S. multinationals themselves. This would mean imposing domestic obligations on business enterprise, commitments that are now so easily evaded. The U.S. government would ask questions about the balance of their capital investments at home and abroad. It would intervene when portions of the U.S. industrial structure are simply traded away for export sales.

> To promote greater consumption, advanced economies must return to some old questions about how to restore growth and distribute incomes across a broader front.

A purposeful politics would focus less on the fortunes of the multinationals and more on reconstructing the domestic economic pillars for work and wages. As that implies, a reexamination of corporate subsidies and the tax code is the place to start. It makes no sense for American taxpayers to subsidize the dismantling of their own industrial base or to provide various tax breaks to support the balance sheets of companies determined to globalize their employment base.

In the American context, these ideas sound quite radical and business would naturally mobilize fierce political resistance to them. Yet I am confident that if such domestic requirements existed, U.S. multinationals would quickly adapt to them. Why do I think that? Because this is what the companies already do elsewhere in the world in order to do business. What I have sketched in crude outline are merely the operating social principles that, directly or implicitly, govern commerce in other trading nations, rich and poor. One way or another, nations impose these domestic economic requirements directly and global companies comply with them.

In the real world, business enterprise is relentlessly practical, more realist than ideological. If Malaysia wants ethnic balance in Motorola's workforce, then Motorola does affirmative action. If Germany expects General Motors to deal with elected representatives from its labor force, then GM accepts a works council. If China wants to make world-class aircraft, then Boeing gives it a piece of the action. Political demands, not market forces, produce these concessions. If American companies are willing to operate factories where their workers are policed by communist cadres, if they accede to foreign demands for certain levels of investment, employment, and output, then they can surely learn to deal fairly with their own native land. Patriotism aside, the United States remains, despite its troubles, the richest, largest market in the world. Every global producer understands that, but U.S. firms seem to take it for granted.

The paradox is that, by helping itself, the United States might actually help the global system avert disaster. A shift in thinking to the problem of demand would require a great array of different policies, but starts with the understanding that wages and employment, on both ends of the global economy, are central to the system's long-term health. Excess supply can be controlled in different ways, but that is the negative method of achieving a balance, essentially by shutting down production. The much more positive approach is to bolster worldwide demand.

To promote greater consumption, advanced economies would have to return to some old questions (and unfashionable doctrines) about how to foster greater growth and distribute incomes across a broader front. In the developing economies, this means "bringing the bottom up" as rapidly as possible, more systematically than commerce or capital would like. Among other things, it means freeing workers to demand a larger share of the returns from their burgeoning economies. In broader terms, it is the imbalance of returns between capital and labor that has to be redressed everywhere, among rich and poor nations. To state the matter clearly makes plain the formidable reasons the problem is not addressed.❑

REBECCA M. BLANK

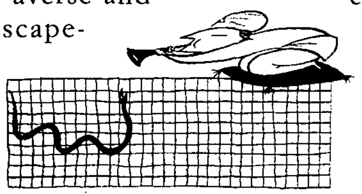
The Misdiagnosis of Eurosclerosis

For two decades, virtually every western European nation has faced high and persistent unemployment. Many Europeans now look to the United States as a model of labor market flexibility. It is argued that Europe's "rigid" policies, encumbering payrolls with benefit costs, giving workers social rights, and making them hard to fire, deters European industry from creating jobs. Conversely, it is said that America, with its lesser levels of social protection, is a job-creation machine.

The United States, however, displays rising wage inequality not mirrored in Europe. This has lead some observers to argue that labor markets on both continents share common pathologies, reflecting the common influence of slow growth, globalization, and technological change. Europe simply chooses to take its slower growth in the form of higher unemployment, while the United States has chosen more jobs but greater inequality.

It is wrong to assume a simple trade-off between social protections and labor market problems. Both the United States and Europe are experiencing problems in their labor markets. To address these problems, good policy choices will require mixing some of the best aspects of labor market flexibility with well-run activist labor market and social protection policies.

The stakes, of course, are not just economic. The high unemployment (in Europe) and rising inequality (in the United States) have social and political ramifications. They threaten a country's social cohesion. Those who have lost economically over the past few decades—either because of extended unemployment or because of falling wages—are likely to be risk-averse and prone to seek scapegoats. Various forms of right-wing violence and opposition to immigrants are on the rise in both the United States and Europe. As the gap between winners and losers widens, the sense of a common political community erodes.



The Story in Europe

Concurrent with the OPEC oil price shocks, worldwide recession and stagflation, growth faltered in the mid-1970s in both the United States and Europe. But rather than recovering in the 1980s, unemployment in many European nations got worse. Rates of long-term unemployment (the share of the unemployed out of work 12 months or more) soared to between 30 and 50 percent in many nations, while part-time employment also rose. Problems were especially severe among younger workers.

Initial attempts to explain this high unemployment focused on Europe's extensive labor market regulation and generous social assistance programs. Despite an uncertain economy, it was argued, wages stayed high because of protective legislation and rigid union rules. Employers refused to hire these high-cost workers, especially since extensive severance protection made it costly or impossible to lay them off. Workers, in turn, were content to remain out of the workforce because they received generous and long-term unemployment compensation and other assistance. Those with jobs presumably had no incentive to allow flexible wages and severance rules, hence "insiders" (the employed) kept firms from adjusting in ways that would allow them to hire "outsiders" (the unemployed).

In fact, many European nations have pursued greater flexibility in their labor markets by weakening protective legislation, but with little effect on unemployment. Germany, France, the

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United Kingdom, and Belgium weakened their dismissal laws. Spain, the United Kingdom, and the Netherlands decentralized wage bargaining. Italy eliminated automatic wage indexation. But overall unemployment did not fall. So it is not clear that Europe's social protections are the main culprit.

From 1991 to 1993, I headed a research project sponsored by the Ford Foundation and the National Bureau of Economic Research that commissioned a group of authors from Europe and the United States to study the effect of European changes in labor market regulation and social protection on labor market flexibility. This research indicated that the effects of these changes were small. For instance, changes in severance laws or in public-sector bargaining created no bursts of job growth or worker mobility. (This work is published in *Social Protection Versus Economic Flexibility: Is There a Trade-off?* University of Chicago Press, 1994.) These results are consistent with work by other researchers.

Of course, it is possible that the legislative changes enacted by European nations in the 1980s were too small to make a difference, and that larger, more dramatic changes are necessary. In Britain, however, there really were dramatic reductions in labor protections, and these did not produce a burst of job growth. Britain's unemployment fell modestly only when Britain devalued the pound.

The Story in the United States

Through the mid-1980s, the much less regulated labor market in the United States appeared to provide a successful alternative model. While unemployment continued to rise in Europe through the 1980s, it fell dramatically in the United States. By the late 1980s, it was at a low and sustained rate of around 5.5 percent. The mild recession of 1990-91 pushed unemployment up, but it fell quickly to its previous low levels by the mid-1990s.

But while unemployment seemed stable at fairly low levels, wage inequality was rising rapidly. Real wages of less-skilled workers started to fall in the early 1970s. Between 1979 and 1993, real wages (wages adjusted for inflation) among men working full-time without a high school degree fell 22 percent, while full-time working men with a high school degree experienced a 12 percent decline in their wages. Over these same years, full-time male workers with a college degree saw their wages rise by 10 percent. Female workers have also seen dramatic increases in wage inequality, although the actual declines among the least skilled are not as extreme (not a very reassuring statement, given how low wages for less-skilled women have always been).

By the time growing wage inequality in the U.S. was widely recognized, the claim that flexible American labor markets were obviously superior to Eurosclerotic ones had become so imbedded in the public discussion that few people stopped to reassess whether that flexibility came at too high a price.

Rising inequality in the United States and high unemployment in Europe very likely reflect the same changing global economic forces. For instance, changing patterns of international trade and changing tech-

nologies will increase the demand for some groups (especially more-skilled workers), while decreasing the demand for other groups (especially less-skilled workers) in all industrialized nations. In the more open U.S. labor markets, it is not surprising that these changes produce shifts in relative wages. The more regulated European labor markets have historically maintained more rigid wage structures, forcing employers to adjust to these economic changes by changing their hiring and firing behavior, leading to increased unemployment. A priori, it is not clear whether the United States or the European model is preferable. They are simply different, adjusting to these international economic changes in different ways, with different effects on various groups of workers.

> Even as Europe justifiably seeks greater labor market flexibility, it would be a mistake to follow the United States down this road.

The Unified Theory

The best evidence in support of this "unified theory" is simply the timing of events. Continuing high unemployment in Europe became a puzzle as the world economy started to recover in the late 1970s. This is exactly the same time that wage inequality started to rise rapidly in the United States.

Other empirical evidence for the unified theory is admittedly mixed. The theory implies a trade-off between wage inequality and high unemployment, where countries with inflexible labor markets experience the highest unemployment rates but show little evidence of rising wage inequality, and vice versa. The United States has experienced the strongest increase in wage inequality, and little long-term increase in unemployment rates over the past 15 years, consistent with the theory. Similarly, some European countries with high unemployment show no change in wage inequality. But some European countries, most notably the United Kingdom, have experienced both problems. So we should not imagine a static choice of high unemployment or high inequality; public policy can influence the terms of trade-off.

Further evidence might be found by investigating which group of workers is experiencing the biggest decline in relative wages in the United States, and asking whether this same group of workers is most affected by rising unemployment in European countries. In the United States, it is clearly the less skilled who have seen the biggest wage declines, although wage inequality is rising within higher-skill categories as well. In Europe, unemployment rates are highest among the least skilled, but it is not clear that the relative unemployment rate of low-skilled workers has risen over time. In fact, only France and Sweden show big rises in unemployment among the least skilled relative to more skilled workers. In other countries, unemployment among all groups has risen, so relative unemployment rates by skill remain largely constant. In general, European unemployment seems more focused by age than by skill level. Younger workers have experienced the biggest increases in unemployment. But this does not necessarily contradict the unified theory. Labor market protections that make it harder to fire older workers in Europe may have pushed an undue burden of unemployment onto younger workers of all skill levels, as companies try to cope with changing competition and changing product demand.

While there is much we still don't understand about the extent to which U.S. and European labor market changes are linked, one can draw three tentative conclusions:

(1) There appears to have been a series of shifts in the demand for workers that have affected many of the most industrialized nations. Differences in how labor markets in these nations have responded depends upon their institutional structure. Less-regulated labor markets, particularly the United States and the United Kingdom, have experienced much greater changes in relative wages. (It is worth noting that only in the United States have there been actual declines in real wages

among workers. In other countries where inequality has grown, it is because the wages of more-skilled workers have risen faster than the wages of those at the bottom of the wage distribution.) Countries with centralized labor bargaining have been most effective in maintaining an unchanged relative wage structure, but a number of these economies have instead faced very high and sustained unemployment problems.

(2) The demographics of different nations also appear to matter for these labor market changes. Some of the differences across countries can be explained by different age patterns in the population, as well as by different patterns of labor force entry and exit among younger and older workers and among female workers. For instance, in some countries women and older workers leave the labor force entirely as high unemployment rates make the benefits of staying in the labor market less attractive. This exodus of women and older workers from the labor force lowers the overall level of unemployment (because there are fewer total people in the labor market), but concentrates unemployment among the workers—such as the young—who remain.

(3) Social protection programs have played a key role in offsetting the effect of labor market changes on workers' income and well-being. Countries with more redistributive programs have spread the economic costs of these changes more broadly within the economy. In fact, there is some evidence that countries with more extensive social assistance programs are exactly those countries where the increases in unemployment are also spread more broadly across workers of different skill levels. This suggests that these countries may have distributional norms that affect corporate and public behavior, beyond the explicit transfer systems that are in place. One piece of evidence in support of this is the rising level of CEO salaries relative to other workers within firms in the United States over the 1980s, a pattern not mirrored in European firms. Within the United States, the costs of these economic changes have been much more highly concentrated on a particular group of workers, with less relief provided by public transfer programs.

Every industrialized country has clearly faced its own unique set of economic and social forces over the past two decades, which have shaped economic reality for its workers. Some countries have chosen to pursue contractionary macroeconomic policies to fight inflation, and this has affected their unemployment rates and their wage rates. Other countries have faced significant immigration changes, which have affected unemployment and changed the distribution of jobs and wages. Robert Solow has argued that most of Europe's problem is macroeconomic and not due to "rigid" labor market institutions. These institutions have been in place for decades; it is the slower growth (due in part to tight monetary policies) of these economies that has driven higher unemployment.

Policy Implications

The fundamental economic changes roiling labor markets are unlikely to reverse themselves in the foreseeable future. To the extent that part of the problem is due to growing global economic competition (particularly from rapidly developing nations), this competition will only continue and even accelerate. To the extent that part of the problem is due to the growth of "smart" technologies that privilege more-skilled workers, these technological shifts are still underway in most industries.

One response is to try to insulate a country's economy from these economic changes, through higher trade barriers or by trying to regulate labor market changes and slow down the adoption of new technologies. Fortunately, few countries have chosen this route, although a vocal political minority in all industrialized countries continue to advocate this. As economists are famous for pointing out (often with annoying frequency), creating barriers to trade and barriers to economic change can produce very negative long-run effects. But given that active labor market policies must be limited, a reasonable social safety net needs to remain in place. If this does not happen, countries will face very real long-term consequences, such as increases in the size of their underground economies, increasing crime, drug use, family fragmentation, and increasing civic disconnection and disorder—frequent outcomes when a share of the population is excluded from mainstream labor markets.

Such income supplementation can occur through traditional unemployment and public assistance subsidies, or can occur in

more novel ways. The earned income tax credit in the United States subsidizes wages of low-wage workers and has been shown to increase labor force participation among those out of the labor market. Public-sector job programs are a way of supplementing income while still encouraging labor market activity. Part-time unemployment subsidies are used in some European countries, and subsidize involuntary part-time workers with partial unemployment payments.

Because of perceived overwhelming demand on their unemployment and public assistance budgets, most industrialized countries have cut income transfers to some extent in recent years. The United States has been in the midst of a debate about whether its social assistance programs are too generous (particularly in the face of high and sustained caseloads over the early 1990s) for several years. Other countries have implemented major changes in the unemployment benefit systems (which traditionally provide far more income support and redistribution in European countries than in the United States), as well as some of their social assistance programs.

Setting limits on access to cash support may be a fiscal necessity, but if at all possible, those limits should coincide with the provision of active labor market policies. For instance, time limits on unemployment insurance may usefully coincide with involvement in job search and training programs.

At present, the United States appears to be in the process of choosing a route whereby low-income families are cut off even further from government assistance, in the name of deficit reduction and budget balancing. The recent welfare reforms aimed at low-income families emphasize that the labor market is the only way out of poverty, even as falling wages make full-time work less and less useful as an escape from poverty. Time limits on public assistance with no guarantee of employment, as have been recently enacted in the United States, is wishful-thinking public policy. Given the realities of low-wage labor markets, many less-skilled parents who reach the end of public assistance will find economic survival extremely difficult. The long-term consequences of such policy changes, when combined with the trends in wages, have the potential to lead to increases in class conflict, in poverty, and in a lost sense of opportunity via mainstream employment. Even as Europe justifiably seeks greater labor market flexibility, it would be a mistake to follow the United States down this road.

> Labor market regulation and employment flexibility aren't always in conflict.

Those who have knee-jerk reactions against all forms of public intervention into labor markets need to be reminded that there is not always a conflict between labor market regulation and employment flexibility. Consider family or maternity leave laws. There are obviously costs to such provisions. But there is also evidence that these laws increase worker productivity, by allowing workers to return to their previous jobs following the birth of a child or a family emergency without losing their accumulated training and experience. Public interventions designed to enhance job matching or relocation may also add to the speed of retraining or reemployment when workers become unemployed. In short, labor market interventions can sometimes increase labor market flexibility.

Those who favor U.S. labor markets as models of flexibility that adjust quickly to economic change and thereby provide the incentives for workers to invest in new skills or change jobs and relocate, must also indicate how they propose to deal with those American workers who face permanently lower wages and reduced incentives to participate in mainstream labor markets. Those who favor the European model that provides more job protection and greater wage equality must indicate how they propose to deal with the large number of long-term unemployed in these countries. We should not view policy as a choice between two opposing models, but rather try to meld some of the best parts of the flexible U.S. private labor market with an effective set of active labor market and social protection policies.□

JEROME H. SKOLNICK

Tough Guys

Given the fame of its authors, its provocative title, and its contentious rhetoric, *Body Count* seems destined to be a best-seller, popular with the Republican right. The former drug czar and secretary of education William J. Bennett here joins with John J. DiIulio, Jr., a Princeton University political scientist, and John P. Walters, a former deputy to Bennett in the drug war, to warn Americans of an impending wave of violent crime and to urge an expanded war on drugs, tougher policing, longer sentences, more imprisonment, and—not to be forgotten—more religion.

"America's beleaguered cities," the authors declare, "are about to be victimized by a paradigm shattering wave of ultraviolent, morally vacuous young people some call 'the superpredators.'" They write: "A new generation of street criminals is upon us—the youngest, biggest, and baddest generation any society has ever known." And they predict that the next generation will be even more predatory, with juvenile crime peaking in 2010.

DiIulio has for several years been predicting that violent crime would increase, even as crime rates have fallen during the 1990s. Until recently, the general decline in crime did not appear to be paralleled by a decline among youth. Last August, however, the *New York Times* reported that data compiled by the FBI showed that after reaching an all-time peak in 1993, the arrest rate for homicides for youths ages 10 to 17 had fallen 22.8 percent. The overall rate of juvenile violent crime, including assault, robbery, and rape as well as murder, also declined by almost 3 percent.

WORKS DISCUSSED IN THIS ESSAY

William J. Bennett, John J. DiIulio, Jr., and John P. Walters, *Body Count: Moral Poverty and How to Win America's War Against Crime and Drugs*. Simon and Schuster, 1996.

John Hagan and Ruth D. Peterson, ed. *Crime and Inequality*. Stanford University Press, 1995.

Declining crime rates, however, do not impress the authors of *Body Count*. "There are a lot more teenagers on the way," they write. "We may be experiencing the lull before the coming storm." Perhaps—but unlike the authors, I am averse to predicting which way the stock market will move next year or which team will win the World Series at the turn of the century, much less whether the youth crime rate will continue climbing until 2010.

To be sure, if the absolute numbers of youth rise sufficiently, youth crime can rise in absolute numbers, even as youth crime rates decline. And as DiIulio himself has noted—for example, in speeches before the International Association of Chiefs of Police last April and at New York University's Fortunoff Lecture last September—most juvenile offenders are neither violent nor incorrigible, and the system needs to be reformed in ways that address the entire range of youth offenders. Only a very tiny fraction of teenagers ever commit violent crimes. In 1980, out of 100,000 youths between the ages of 10 and 17, about 310 were arrested for violent crimes. The sharp rise in youth crime has raised that number to 470, still less than one-half of 1 percent of youngsters. Even Northwestern criminologist James Fox, who has characterized some of today's criminals as "the young and the ruthless," says that youth crime in the future will depend on many factors, including how we respond to the large and growing fraction

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of unsupervised and at-risk children.

Thus, the predictions in *Body Count* of a wave of "superpredators," like much else in the book, reflect a predilection for inflated claims and inflammatory language. That America should be facing "the youngest, biggest, and baddest generation any society has ever known" is a staggering assertion—for what it says about the authors' casual disregard for even the most elementary requirements of evidence. These are tough guys unafraid to use their credentials in the realms of virtue and social science for what is, ultimately, an ideological crusade.

Go Directly to Jail

Consider carefully the claims that the authors of *Body Count* make about prisons. "*Virtually all convicted criminals who go to prison*," they write, "*are violent offenders, repeat offenders, or repeat violent offenders.*" "It is simply a myth," they continue, "that our prison cells are filled with people who don't belong there, or that we would somehow be safer if fewer people were in prison. The widespread circulation of that myth is the result of ideology masquerading as analysis."

So let's be analytical. Note that in the above statement *Body Count* aggregates three categories of offender—"violent offenders, repeat offenders, or repeat violent offenders"—one of which does not consist of people convicted of violent crimes. A careful analyst asks: Which people belong in prison, for what period of time, and at what cost? Do we want to punish petty thieves—even repeat offenders—as severely as we punish rapists and armed robbers? Do we want life sentences for every violent criminal? Do we want convicted rapist Mike Tyson to have served 3 years, 10, 30, or life? If we answer 10 or 30 are we prepared to tax ourselves to pay for the additional time served? And if we don't tax ourselves, are we prepared to accept cuts in such government services as education? These are the kinds of troubling questions that a non-ideological, analytical stance suggests—and that *Body Count* doesn't ask.

Of all criminal offenses, the most challenging to a common consensus are those involving drugs. The California electorate that voted for a draconian three strikes law in 1994 (mandating life sentences for those convicted of any third felony) also just approved an initiative legalizing the medical use of marijuana. A similar, but even more sweeping, initiative was approved in Arizona. Perhaps recent California voters were influenced by some of the facts about the Three Strikes Law that the authors of *Body Count* ignore. For example, data released in March 1996 by the California Department of Corrections and analyzed by San Francisco's Center on Juvenile and Criminal Justice show that more people (3,749 to be exact) have been put away under Three Strikes for possession (not sale) of drugs than for all violent offenses combined (2,342 defendants). Indeed, twice as many defendants have been imprisoned under Three Strikes for marijuana possession than for murder, rape, and kidnapping combined.

According to a recent Gallup poll, 45 percent of Americans say that they, someone they know, or a member of their family has used drugs illegally. The 1996 National Drug Control Strategy, which reports these findings, goes on to point out that most of the respondents were whites living in households with an income in excess of $35,000. Americans are in a dilemma about drugs. They don't support legalization of any drugs because they fear the consequences, especially for youngsters. At the same time, they distinguish marijuana from other drugs, and they question draconian policies, such as those proposed by Bennett and company, which implicitly call for the imprisonment of the vast numbers of people who have used drugs illegally.

Crime and Depravity

Body Count is notable not only for its get-tough remedies, but also for its insistence that violent crime and use of drugs are the result of "moral poverty" rather than of any underlying social or economic conditions. Those who commit violent crime do so because they are "morally impoverished" from never having had the benefit of "loving, capable, responsible adults who teach the young right from wrong." Doubtless that is often the case, but not always. Mafia hit men and bosses are sometimes reared in close, loving families. So was the attempted assassin of President Reagan, John Hinckley, Jr. But if the point is that responsible parents are bet-

ter for children than irresponsible ones, who would disagree?

By the book's end, the authors offer us a more capacious litany of displeasure, particularly emphasizing out-of-wedlock births, especially by teenagers. I share their disapproval of unmarried teenage motherhood. But other than bemoaning the problem, their solutions are to bring back orphanages and to revive religion as a way of reducing sexual activity. Orphanages had a brief notoriety during the early days of Newt Gingrich's reign as speaker of the House, until Republicans figured out how much they would cost—economically and politically. Abstinence is always a popular plea, but it ignores the basic biological and demographic realities: Teenagers are becoming sexually mature at ever younger ages, men and women are marrying at ever later ages, and hence the period when Americans are sexually mature but unmarried has dramatically lengthened. Thus, calls for sexual abstinence, like orphanages, do not seem very promising as solutions, even if they are politically correct in right-wing Republican circles. And, of course, the authors do not advocate sex education and contraception to prevent pregnancy, nor do they advocate abortion to reduce unwanted childbirth.

The authors of *Body Count* show a casual disregard for even the most elemental requirements of evidence.

The concept of "moral poverty" is at base tautological. Anyone who deliberately commits a major assault, violent rape, armed robbery, or homicide is, by definition, morally impoverished. In a book filled with statistics, it is interesting that the main theory—that moral poverty causes crime—cannot be tested. "Moral poverty" is a judgmental metaphor, not a measurable variable. It is not possible to produce a correlation coefficient describing the relationship between moral poverty and crime.

As the authors employ it, "moral poverty" is also an ideological policy concept. If moral poverty is the cause of crime, there is little that government can do about crime except to punish criminals, while exhorting parents to be morally responsible. To say that deficient parenting is the cause of crime is old hat—who would listen? But introduce a jazzy term like "moral poverty" with what they claim it produces—the young "superpredator"—and you may have the makings of a right-wing best-seller.

When we put the thunder of *Body Count* aside, the main theoretical and policy difference between it and most criminologists (who are a main target of the book's criticism) is how to produce responsible parenthood. That difference is monumental in its implications. Most criminologists employ some version of what sociologists call "social disorganization theory" to understand crime. In this perspective, joblessness and economic deprivation help to cause family breakdown, which in turn increases violent crime.

"Moral poverty," by contrast, ignores such factors as racism, joblessness, inequality, and poverty and zeroes in only on "the near complete collapse of our character-forming institutions . . . in a free society, families, schools, and churches." Consequently, the bonds of family must be "restored." How do we achieve this restoration? "We believe," the authors write, "the most obvious answer—and perhaps the only reliable answer—is a widespread renewal of religious faith and the strengthening of religious institutions." Lotsa luck and God bless.

By joining the politics of fear with the politics of virtue, *Body Count* is the mid-1990s' articulation of crime control policies that have dominated American life since Richard Nixon's 1968 election campaign—more aggressive policing, tougher sentencing, more prisons. To be sure, there are slight modifications of that vision. The authors point out that "no frills" prisons are no answer to crime control since most of those convicted scarcely deliberate about the severity of punishment before committing their crimes. Speaking directly to conservatives who support the death penalty (as they do), they say it is more a symbolic than a practical control measure. They

do not support the National Rifle Association on gun control, concluding that some gun-control laws can make a small difference in reducing violent crime and consequently are worth implementing. And they bury the old chestnut that *Miranda* (requiring police to inform suspects of their right to remain silent) seriously undermines violent crime control.

Race and Crime

Body Count focuses on crime by young black males, who are disproportionately the perpetrators and victims of violent crime and therefore an appropriate focal point for the book. But it is distressing that the authors introduce the "morally impoverished" youth criminal as an alien. They never explicitly link young black males with the "superpredator" label, but the connection is unmistakable.

The term, the authors say, is a summation of a concept attributed to the political scientist James Q. Wilson, who wrote that Americans "are terrified by the prospect of being gunned down at random, without warning and almost without motive, by youngsters who afterwards show us the blank, unremorseful face of a feral, pre-social being." Terms like "moral poverty," "superpredator," and "feral, pre-social being" exemplify what Cornel West, in his book *Race Matters* (1993), called "popular xenophobic images." It could scarcely have escaped the authors' minds that expressions like "superpredator" and "feral, pre-social being" pander to racist prejudice.

Virtually all criminologists agree racism alone cannot account for high black male arrest and conviction rates. African-American overrepresentation in the criminal justice system is unquestionably the result of black commission of serious violent offenses disproportionate to their presence in the population. Those who have the most to fear and be feared are not Americans in general, but young black males age 14 to 24. This category comprises roughly 8 percent of the total population, while constituting more than a quarter of all homicide victims and nearly half of all murderers. In addition, those who reside in inner-city areas where such crimes occur are disproportionately likely to be victims of crime. In New York City, homicides occur in East New York and the South Bronx, not in Sutton Place.

The relationship among race, crime, and punishment is more complex than the authors make it. Let me offer four examples from my own experience observing police in action in New York City and Oakland, California. A group of men gathered on a sidewalk in upper Manhattan listen to a boom box and disturb the neighbors. The owner, who has been warned before, is issued a $75 citation. Similarly, a young black man is issued a citation for drinking a beer on a hot night outside his crowded apartment building. In Oakland, a young black man is cited for driving with a broken taillight, another for smoking marijuana in the street.

All of the citations were legally administered; in none did the police appear to be acting out of racial animus. But an affluent white person is unlikely to be playing music outside his Park Avenue apartment or drinking beer in front of his Beverly Hills home and is, therefore, unlikely to be cited for these offenses. And fines leveled equally on the affluent and the poor are disproportionately punitive to the poor. If the fines go unpaid, the courts issue warrants; and if the warrants are ignored, arrest, jail, and a criminal record will follow. Racism aside, poor people's life circumstances make them more vulnerable to legal processes.

> Underlying causes of juvenile crime such as poverty, racism, and inequality cannot be addressed mainly by a summons to virtue.

I have been studying criminal justice practices for more than three decades and have seen substantial progress in reducing racism, especially among police. But this didn't happen until after the riots of the 1960s and the civil rights litigation of the 1970s. When I studied the Oakland Police Department in the early 1960s, there was one "Negro" officer. Today the chief and two of the three deputy chiefs are African-American. Police women are in high-ranking management positions in that and other depart-

ments, unheard of in the 1960s. In my recent experience, most white officers from beat cops to chiefs appreciate the problems confronting minority residents of the cities they police. Some of the best people I know are police.

Nevertheless, scandals in police agencies across America in the past few years have revealed cops who are racist, corrupt, deceptive, and brutal. A blue curtain of silence often constrains other police from blowing the whistle. As a result, many residents of minority communities, not only young black males, have become deeply mistrustful of the criminal justice system and its authorities. That mistrust is passed on to children. If poor minority neighborhoods generate crime, the negative experiences with authorities should be calculated as one of the causes.

> The statement that today's youth criminals are the worst that "any society has ever known" can charitably be described as historically uninformed.

The Contribution of Poverty

Body Count completely dismisses poverty—the material kind, that is—as a cause of crime. For this conclusion they refer to an "insightful observation" by James Q. Wilson that "crime amidst plenty" was the real "paradox of the sixties." But if crime is, as the authors recognize a page earlier, "concentrated in economically disadvantaged neighborhoods," how can they say there was "plenty" where crime was concentrated?

Of course, there was plenty for some in the 1960s, while poverty and unemployment afflicted economically distressed urban neighborhoods—historically a recipe for the emergence of youth cultures leading to rising crime rates. Even when a rising tide lifts all boats, the poor may experience deprivation relative to the rest of society.

The authors of *Body Count* concede this much: "Many boys who go on to commit serious crimes do start life in relative material deprivation." And they even cite "compelling statistical evidence that public investments in certain types of programs for high-risk youth do pay social dividends in the form of reduced crime and fewer other social ills." So far, so good. Then they write that there's a huge difference between recognizing that certain programs reduce crime and recognizing "that poverty causes crime, that any program is better than no program, or that all successful programs can be widely and successfully replicated if only they are perpetually and lavishly funded by the taxpayers." No citation appears to support this outlandish interpretation of a "liberal vision." That is because no liberal and no criminologist, liberal or otherwise, has ever written any such sentence. When they cannot reconcile reality with their ideology, they go for the jugular and overstate.

In the edited volume *Crime and Inequality*, John Hagan and Ruth D. Peterson offer a sustained, sober, and scholarly review of the best criminological literature on this topic. Developed in a dozen articles by leading criminologists, the focal point of the volume is Robert Sampson and William Julius Wilson's "Toward a Theory of Race, Crime, and Urban Inequality." Rooted in the ecological theory of social disorganization advanced by sociologists at the University of Chicago, the article draws upon the contemporary research of Sampson and Wilson. Basically, they argue that racial history and economic inequality lead to residential isolation, which in turn produces community structures and cultural patterns "that undermine social organization and hence the control of crime." One main point is that when whites are in similar social and ecological circumstances, their criminality is comparable to that of blacks.

In another article, Kenneth Land and his colleagues David Cantor and Stephen Russell draw upon a half century of studies supporting a macro-level relationship between the unemployment rate and property crime. Their research establishes that the relation between unemployment and property crime is even more robust at the level of census tracts or city blocks. The effect is still more pronounced in

their time-series analyses, which "lag unemployment" and suggest how accumulated deprivation sparks motivation to commit crime, a point that is further developed in Martin Sanchez Jankowski's more readable ethnographic study in the same volume.

These patterns are not new. The statement in *Body Count* that contemporary youth criminals are the worst that "any society has ever known" can charitably be described as historically uninformed. Frederic M. Thrasher's study of Chicago's youth gangs, first published in 1927, is the locus classicus of studies of youth crime. Yet in many critical respects, the "gangsters" studied by Thrasher track those of today. The two big differences were that the gang members had fewer deadly weapons in the 1920s and that the most prevalent groups were the Poles (37 percent), Italians (25 percent), and Irish (19 percent). Although Thrasher would doubtless have been comfortable calling gang members morally impoverished, he traced their lack of moral rectitude to living conditions. "The gang," he wrote, "occupies what is often called 'the poverty belt'—a region characterized by deteriorating neighborhoods, shifting populations, and the mobility and organization of the slum." Thrasher saw family breakdown as a stimulus to boys to join the gang, just as Sampson and Wilson do. The causal relationships have not changed since 1927; what's different is the color of the juveniles who commit the crimes, and the weapons they carry.

Learning From Recent Trends

Rhetoric aside, criminologists, including DiIulio himself, agree that crime has no single cause. Similarly, the decline of crime between 1993 and 1995 also has no single cause. Here are some likely reasons for the decline:

- The baby boomers, who in 1980 were about 16 to 34 years old, are now about 32 to 50, just about outgrowing the prime years for committing crime.
- Killings among spouses have sharply declined, as society and the police have become less tolerant of domestic violence.
- The prison population has tripled, incapacitating some violent criminals.
- Some say that drug markets have stabilized, resulting in less gang warfare over territory. One of the paradoxes of policing has been that when major drug outfits are apprehended, others arise to war for their territory.
- Improvements in trauma medicine have cut homicide rates by saving many gunshot victims who might have died in the past.
- The Brady Bill and other gun-control initiatives have reduced the easy availability of handguns. In New York City, for example, those who drink beer illegally in public places know they may be searched and therefore don't carry guns. If they fight, and don't have a gun, they can't shoot.
- Unemployment is down, resulting in lower poverty and greater social and family stability.

Recent experience doesn't tell us that get-tough policies are the only effective way to combat crime. On the contrary, institutionalizing youth criminals—whether in regular prisons or boot camps—scarcely influences recidivism once they are released back into the communities that were criminogenic in the first place. In his recent speech at New York University, DiIulio described how he has become heavily involved in supporting Philadelphia's African-American churches to bring boys and girls under the churches' influence and mentoring guidance—which is admirable and shows that tough guy DiIulio can be a sheep in wolf's clothing.

Where I part company with Bennett, DiIulio, and Walters is the suggestion that get-tough measures combined with religious revival are the main directions for policy that federal, state, and local governments should follow. Certainly we need to revitalize community groups—not only churches but also schools, civic associations, and other neighborhood resources. We also need to reduce chronic joblessness in communities where crime and victimization are most pronounced. The remorselessness of some youthful offenders is all too real and, in some cases, tragically irreversible. But such underlying causes of juvenile crime as poverty, racism, and inequality cannot be addressed mainly by a summons to virtue. If we ignore those problems and look only to the prisons and the politics of rectitude to pull us out of criminality, then I agree: Crime will be on the rise, and look out! ☐

JONATHAN CHAIT

Quayle Hunting

When chosen by George Bush to run as the Republican vice presidential candidate in 1988, J. Danforth Quayle—as he was known at the time—was considered almost universally to be a buffoon. Journalists, pouncing on his privileged background, draft avoidance, and lack of intellectual heft, widely speculated that Bush had selected him in the hope that his handsome appearance would attract women to the ticket. Democrats, in response, tried to make him a top campaign issue.

The rap against Quayle, though probably accurate, was unfair; he is not radically less intelligent than other national political figures. If instead of being vice president, he had been, say, a member of Oklahoma's congressional delegation, he might have been considered almost enlightened. Sensing this inequity, *Washington Post* heavyweights David Broder and Bob Woodward published a flattering series on Quayle in 1992.

Thus was born Quayle Revisionism. This theory, advanced in no small part by the efforts of Quayle and his staff, held that Quayle was not merely a dim reciter of soundbites unfairly singled out from other dim reciters of soundbites, but an influential social critic crucified by a liberal media. Quayle revisionists claimed vindication ("Dan Quayle Was Right!") after President Clinton began touting the importance of stable families. Quayle continues to burnish his image for God-knows-what political adventures in his future. His blond hair is a darker shade, graying at the temples; he looks at least 25 years older than he did in 1988. And he and his wife have authored, respectively, a nonfiction book about American families and a novel that are Quayle revisionist propaganda tracts.

Dan's book, *The American Family*, details the lives of five families—one black, one Hispanic, one white ethnic urban lower-middle-class, one rural middle-class, and one upper-middle-class—in order to demonstrate the importance of the American Family, an institution the author seems to feel is widely disparaged. Quayle denies any polemical motivations. "Strengthening families should not be a political issue," he declares at the outset. Indeed, he praises the "It takes a village" approach while warning that "if the 'village' is government, then the endeavor is doomed to fail. . . . Governments don't have the answer." Quayle proceeds to list public policy recommendations to

"strengthen the family unit": cut taxes, crack down on crime, restore religion to the public schools, and so on. His strongest counsel is in the field of education reform; he cites the high priority the families he interviewed place on education as evidence of the need for private school vouchers—as if voucher opponents base their claim on the irrelevance of education.

The book operates on the assumption that the family values it describes are something everybody can agree on. But it would be surprising if family values, Quayle-style, were to meet with universal acceptance. Quayle quotes with approval one family's maxim that at the dinner table "Children should be seen, not heard." Or take Carmen's recollection of weighing whether to work after pregnancy:

> And my boss said I could have my job back after the period of time you need to recuperate. But my husband said, "You're not going to work anymore. You're going to stay home and take care of the child."

At the end of each chapter, Quayle recounts the lessons learned from each family, *Book of Virtues*-style. He cites the above episode as evidence of "helping your mate feel fulfilled": "Tony not only accepted Carmen's staying home with the children," he observes, putting a slightly more auspicious spin on the incident, "but welcomed it."

Using the families he interviews as Rorschach blots in which he can always see justification for his prejudices, Quayle manages to sprinkle his priceless political commentary sporadically throughout *The American Family*. But his philosophy has not grown much more sophisticated during his years in the political wilderness. After telling us how Rob started his business with a $3,000 loan from his uncle, Quayle observes, "He didn't need government offices or grants, stipends, or investors." All he needed, in other words, was rich relatives.

Disappointingly, though, these choice political asides are lost amidst the relentless banality. Finishing this book was one of the hardest things I have ever done. Almost as hard, in fact, as finishing *The Campaign*, the 478-page hardcover novel by Marilyn Tucker Quayle and her sister Nancy Tucker Northcott. During the countless hours I devoted to freeing myself of this task inflicted on me by *The American Prospect*'s editors, I spent very little time thinking about what I would write. Mostly, I escaped into fantasy by plotting ways to avoid finishing the novel, such as fleeing the country or elaborately faking my own death.

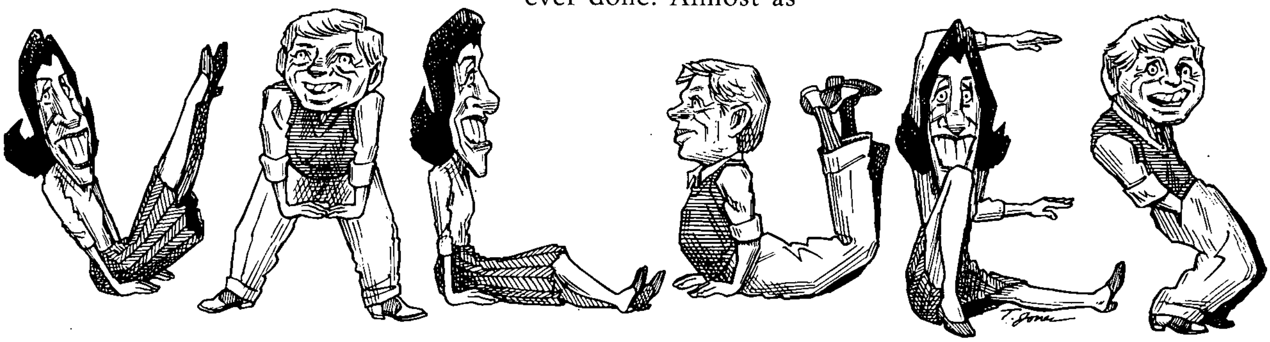
WORKS DISCUSSED IN THIS ESSAY:

Dan Quayle, *The American Family: Discovering the Values that Make Us Stay Strong* (HarperCollins, 1996).

Marilyn Tucker Quayle and Nancy Tucker Northcott, *The Campaign* (HarperCollins, 1996).

The Campaign is a projection of the Quayles' worldview. The hero, Bob Grant, is a fortysomething Republican senator who serves on the Armed Services Committee and believes strongly in family values. Just in case the real-life parallel is otherwise lost on readers, Grant's brother is named Tucker, the family name of both authors as well as the first name of Dan and Marilyn's son.

The only difference between Grant and Quayle (or at least the authors' image of Quayle)



is that Grant is black. Some whites are able to write authentically about the black experience. Marilyn Quayle and her sister are emphatically not among them. Among other curious details, the book contains a passage explaining that Grant's grandmother had a child (Grant's aunt) sold into slavery. The novel takes place in the near future, so let's assume that Grant was born in 1950, his mother in 1930, and his aunt no earlier than 1920. This means she was sold into slavery a good 60 years after the Emancipation Proclamation. The narration of Grandmama Grant's stories unintentionally employs surrealistically hilarious dialogue, similar to the scene from the movie *Airplane* in which June Cleaver speaks to a pair of black passengers in jive. "God's a sight smarter than me, and he knew it was time for that good man to go home," Grandmamma reports. "Won't be but a winking of the eye, and I'll be taking that fiery chariot ride, myself." Grant's buddies are just as diverse as the families that Dan interviews for *The American Family*, providing token roles for a Jew, a Hispanic, and an Asian American (who "possessed the intellectual keenness and physical agility of his Asian heritage").

All of *The Campaign*'s villains are liberal and all the liberals villainous. The Democratic vice president is an ineffectual figurehead, but "the media loved him—he'd grown up and gone to private schools with many of them." The Democratic President is a slippery, poll-obsessed fellow who is "cultivating a more conservative image" while cheating on his wife. In fact, almost all of the liberals cheat on their wives. The exception is a radical lesbian feminist professor who helps frame Grant by brainwashing her students against him. But even she plans to abandon her partner, Frances, whom she "converted" (whether to feminism, lesbianism, or both is unclear), as soon as Frances stops giving her expensive gifts. The extensive role the press corps plays in *The Campaign* reflects the same media obsession that Dan displays in *The American Family*. Uniformly liberal and morally decrepit, the media conspire to destroy Grant. Liberalism, drugs, homosexuality, short skirts, and the capacity for duplicity and murder meld together into a seamless morass of sin.

Grant has thoughts like this: "That cheering crowds of diverse backgrounds and all races would work together to reelect him, a black man, United States Senator from Georgia proved that faith, family and love of freedom were powerful unifiers." And he says things like, "I won't have worship trivialized by politics." The President and his staff have thoughts like, "Confusing the issue never hurts" and say things like, "Good. This is just what we need to finish Grant." Liberals are incapable of even the most basic humanity; when his son is hospitalized for (what else?) a drug overdose, the Attorney General doesn't bother to visit him. The character code-named "Bonfire," in cahoots with the Attorney General, heads the anti-Grant scheme that serves as *The Campaign*'s plot. To prevent the symbolism of the ringleader's pseudonym from passing their readers by, the authors repeatedly refer to him as "that devil" and note that Grant "had a serpent in his garden, one let loose by Bonfire." (It's possible that I'm missing lots of other symbolism here by reading the novel literally. Perhaps future literary scholars will interpret this text entirely allegorically.)

Casting "Bonfire" and the Attorney General as unequivocally evil robs the book of any vestige of suspense: Does the conspiracy lead all the way to the White House? Take a guess! Even a mediocre novelist could have rendered this novel more tolerable by throwing in sex scenes. But readers familiar with the Quayles' social views know that this isn't even a possibility. The raciest it gets is warm hugs between family members.

Marilyn's book uses the pretense of being a novel to send a message about family values, while Dan's book, which is supposed to send a message about family values, succeeds only in sending the message: "I wrote a book!" For all the acceptance Quayle's Murphy Brown argument has won during the past four years, the books he and his wife have written serve only to weaken the argument; if this is their idea of what popular culture should be, give me the Fox network. "If the entertainment establishment is just choosing projects based on talent," Dan writes, "it sure is peculiar that liberals are so much more talented than conservatives." The Quayle books make it seem less peculiar.❑

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event is in the offing so there is unlikely to be any revival or expansion of federal authority in the foreseeable future.

Carl N. Degler
Stanford, California

Mr. Degler is the Margaret Byrne Professor of American History Emeritus at Stanford University.

More Budget Traps

To the Editors:

In "The Balanced Budget Trap" [*TAP*, November-December 1996], Karen Paget accepts the standard premise that "in economic downturns, revenues fall and . . . this requires a temporary increase in deficit spending." The implied corollary premises are that "economic downturns" are natural cyclical events, that follow-on deficits may spur recovery, that the economy can often function well without deficits, but that deficit cuts cannot cause recessions or depressions. Had Paget explored historical data, her attack on a balanced budget would have been stronger:

■ Prior to World War II, our only six major depressions were immediately preceded by multi-year budget surpluses and reductions in national debt. Deficits have been chronic since the Great Depression of the 1930s, and there has been no depression since then.

■ Since World War II, all nine recorded recessions have immediately followed deficit cuts relative to GDP. From 1986 through 1989, for example, the deficit dropped from 5.4 percent to 2.9 percent of GDP; recession followed in 1990-91, and sluggish recovery in 1992.

■ The deficit has now been cut from 4.9 percent in 1992 to 2.3 percent of GDP in 1996, with a still smaller deficit likely for 1996. In the same issue, Robert Kuttner labels this "budget strategy" as the "most successful single policy" of President Clinton's first term. This pattern is remarkably similar to that of 1986-89, and to earlier patterns. The beginning of a recession is hardly noticed, but it will not be surprising if we find a year from now that the next recession began no later than September 1996.

The record is that deficit increases always stimulate growth, cuts always lead to contraction. "Liberals" and "progressives" who ignored the evidence are left without weapons in their jousts with "conservatives." Chronic and significant deficits appear indispensable.

Frederick C. Thayer
Pittsburgh, Pennsylvania

Mr. Thayer, professor emeritus at the University of Pittsburgh's graduate school of public and international affairs, is the author of Do Balanced Budgets Cause Depressions?

Plebiscite Pleadings

To the Editors:

Peter Schrag's piece on plebiscites in California [*TAP*, "Take the Initiative, Please," September-October 1996] is exclent. It is vitally important to focus on how the deluge of ballot issues in California and elsewhere (Washington, for instance) distorts the political process and the quality of public discussion of issues.

There is something more fundamentally wrong with ballot issues. Plebiscites undermine the very basis of our great experiment in representative, that is republican, government. We the people are supposed to choose our representatives wisely and hold *them* accountable for *their* decisions. The Founders not only rejected provision for federal ballot issues, but Article IV of the Constitution guarantees "to every state in this Union a republican form of government." That is, all decisions are to be made by the people's elected representatives.

We see ballot issues used now in exactly the way the framers feared when they unsuccessfully prohibited them. Ballot issues take the elected representatives off the hook for their responsibility to enact the legislation and carry out the laws, leaving legislators and governors to duck, saying the people have spoken, my hands are tied. Worse yet, increasingly ballot issues do real harm in and of themselves and decreasingly serve as the safety valve and protection against the tyranny their progressive inventors envisaged a century ago. Above all they undermine our precious system of representative government itself.

Brewster C. Denny
Seattle, Washington

Mr. Denny is professor and dean emeritus at the University of Washington.

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Happiness Is . . .

According to *The Economist*, PaineWebber has created an index of "happiness" for bonds that goes up when unemployment rises.

If others would only follow this example and strike a blow against hypocrisy, we could have a series of more accurate social indicators: an index of happiness for hospitals that jumps when epidemics hit; one for journalists that goes up when scandals break out; another for lawyers and accountants that climbs whenever a company goes bankrupt.

Ninety years ago, Ambrose Bierce defined happiness as "an agreeable sensation arising from contemplating the misery of another." Nothing has changed, except the Federal Reserve has turned Bierce's observation into national policy. If you get fired these days, you can at least take comfort in this consoling thought: You did your part to keep interest rates down, and to make bonds happy.

Through a Glassman, Darkly

"If Bob Dole were a stock, I would be buying the hell out of it," the *Washington Post* columnist James Glassman wrote on September 24. In fact, Glassman could have invested in Dole on the Iowa Electronic Market, which was then offering futures contracts on a Dole victory on highly favorable terms. For just 9.5 cents that day—we've checked the market's records—Glassman could have bought contracts that would have paid a dollar if Dole had won. Pity that he seems to have missed his chance.

A month later, Glassman was warning his readers about the nasty effects on the stock market if Clinton were to win a second term. But the market seems to have weathered the news at least for a while, as the Dow Jones Industrials hit 12 all-time record highs in the three weeks after the election. Since we wouldn't want to think political preferences were coloring Glassman's investment advice, we trust he unloaded his portfolio and went short on November 6.

Put Down That Pun and Hold Safire

Predictions of Clinton's defeat and disgrace have also been a regular staple of columnist William Safire, who does not only forecast doom for the President—he goes the extra column inch to make it come true. A couple of years ago, Safire said Republicans didn't want to use Whitewater to impeach the President because they had Clinton right where they wanted him in 1996. Oh, well. Earlier this year, he predicted the "endgame" for the Clintons was about to unfold. When the game didn't end on schedule, Safire kept at it. Down to the very end of the campaign, he was hammering the President on his Indonesian connections, explaining that unlike other conservative columnists, he would "rather light a scandal than curse the darkness." Actually, Safire was doing better than that: He was burning the scandal at both ends, using his column to make unsupported allegations that wouldn't pass the scrutiny of the paper's news editors. But before he fires his last shot, he may well be able to carve a notch in his puns.

—*Paul Starr*